



BEFORE THE ARIZONA CORPORATION COMMISSION

2002 SEP 30 P 12:19

WILLIAM A. MUNDELL

Chairman

JIM IRVIN

Commissioner

MARK SPITZER

Commissioner

DOCKETED

SEP 30 2002

AZ CORP COMMISSION
DOCUMENT CONTROL

DOCKETED

CAR

IN THE MATTER OF THE APPLICATIONS)
OF SALT RIVER PROJECT AGRICULTURAL)
IMPROVEMENT AND POWER DISTRICT FOR)
ORDERS AUTHORIZING ITS ISSUANCE)
OF REVENUE BONDS)

DOCKET NOS. U-217-88-131
and E-02217A-01-0183

DECISION NOS. 56381 and 64253

NOTICE OF SALE OF
REVENUE BONDS
(2002 Series B)

TO THE HONORABLE ARIZONA CORPORATION COMMISSION:

On September 26, 2002, Salt River Project Agricultural Improvement and Power District (the "District") issued \$570,000,000 of its Salt River Project Electric System Revenue Bonds, 2002 Series B (the "2002 Series B Bonds"). Authority for \$72,000,000 of the 2002 Series B Bonds was derived from Decision No. 56381 of the Arizona Corporation Commission (the "Commission"), dated March 9, 1989, in Docket No. U-2117-88-131, authorizing the District to issue Revenue Bonds in an aggregate principal amount not to exceed \$630,000,000 for construction purposes as described therein. Authority for the balance of the 2002 Series B Bonds, \$498,000,000, was derived from Decision No. 64253, dated December 4, 2001, in Docket No. E-02217A-01-0183, authorizing the District to issue Revenue Bonds in an aggregate principal amount not to exceed \$500,000,000 for construction purposes as described therein. A summary of the Revenue Bonds issued pursuant to these two Decisions is attached hereto as Exhibit A.

The two referenced Decisions include orders that the District file with the Commission certain documents and information contemporaneously with the sale of any of the

1 Revenue Bonds authorized thereby. In accordance with such orders, the District hereby submits
2 the following documents in connection with its sale of the 2002 Series B Bonds:

3 1. Certified copy of the September 13, 2002 resolution of the Board of
4 Directors of the District authorizing the sale of the 2002 Series B Bonds (Exhibit B);

5 2. Certified copy of the September 13, 2002 resolution of the Council of the
6 District ratifying and confirming the sale of the 2002 Series B Bonds (Exhibit C);

7 3. A conformed copy of the Purchase Contract, dated September 13, 2002,
8 between the District and Bear, Stearns & Co., Inc., as representative of the purchasers identified
9 therein (Exhibit D); and

10 4. A conformed copy of the Official Statement, dated September 13, 2002,
11 distributed in connection with the sale of the 2002 Series B Bonds (Exhibit E).

12 These documents include the requested information pertaining to the date of issuance, interest
13 rates, maturities, amount of discount or premium, and issuance expenses.

14 RESPECTFULLY submitted this 30th day of September 2002.

15
16 SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT

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23 Attorneys for Applicant

24
25 By 
26 W. Gary Hull

1 The original and 12 copies hand delivered
2 this ~~30th~~ day of September 2002, to:

3 Docket Control
4 ARIZONA CORPORATION COMMISSION
5 1200 W. Washington Street
6 Phoenix, AZ 85007

7 With copies to:

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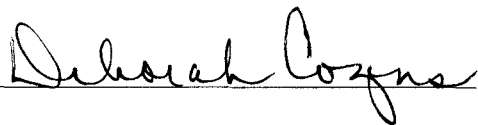
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EXHIBIT A

**ATTRIBUTION OF 2002 SERIES B BONDS
TO PRIOR DECISIONS OF THE COMMISSION**

Commission Decision No.	Revenue Bonds Authorized*	Previously Issued Bonds	2002 Series B Bonds	Remaining Authorization
56381	\$630,000,000	\$557,250,289.85	\$ 72,000,000	\$ 749,710.15
64253	500,000,000	0.00	<u>498,000,000</u>	2,000,000.00
Total			<u>\$570,000,000</u>	

*For construction purposes.

EXHIBIT B



CERTIFICATE

I, TERRILL A. LONON, the duly appointed, qualified, and acting Corporate Secretary of the Salt River Project Agricultural Improvement and Power District ("SRP"), a special district under Title 48 of the Arizona Revised Statutes, DO HEREBY CERTIFY that attached hereto is a true and correct copy of a resolution entitled "**RESOLUTION AUTHORIZING THE ISSUANCE AND SALE OF \$570,000,000 SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS, 2002 SERIES B OF THE SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, AND PROVIDING FOR THE FORM, DETAILS AND TERMS THEREOF**" as adopted by a majority of the SRP Board of Directors at a meeting held on September 13, 2002, at which a quorum was present and voted, and that no change, revision, amendment, or addendum has been made subsequent thereto.

IN WITNESS WHEREOF, I have set my hand and seal of the Salt River Project Agricultural Improvement and Power District, this 27th day of September 2002.

A handwritten signature in blue ink, appearing to read "Terrill A. Lonon", is written over a horizontal line.

Terrill A. Lonon
Corporate Secretary



**RESOLUTION AUTHORIZING THE ISSUANCE AND
SALE OF \$570,000,000 SALT RIVER PROJECT ELECTRIC
SYSTEM REVENUE BONDS, 2002 SERIES B OF THE
SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT, AND
PROVIDING FOR THE FORM, DETAILS AND TERMS
THEREOF.**

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**RESOLUTION AUTHORIZING THE ISSUANCE AND
SALE OF \$570,000,000 SALT RIVER PROJECT ELECTRIC
SYSTEM REVENUE BONDS, 2002 SERIES B OF THE
SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT, AND
PROVIDING FOR THE FORM, DETAILS AND TERMS
THEREOF.**

WHEREAS, the members of the Board of Directors of the Salt River Project Agricultural Improvement and Power District (the "Board of Directors"), by resolution entitled "Resolution Concerning Revenue Bonds," dated as of November 1, 1972, as amended (the "Resolution"), have created and established an issue of Salt River Project Electric System Revenue Bonds (the "Bonds"), which may be authorized from time to time pursuant to Series Resolutions; and

WHEREAS, as a result of changes in federal and state laws and actions by regulatory bodies, the District has undertaken a plan to improve its operating efficiency and financing flexibility, which plan includes the issuance of the 2002 Series B Bonds (as defined in Section 2 hereof), so that it is better positioned to remain competitive and to respond to future changes; and

WHEREAS, the Arizona Corporation Commission (the "Commission") has approved by its Opinions and Orders described in Exhibit A hereto the issuance of \$570,000,000 2002 Series B Bonds to finance the costs of acquisition and construction of various improvements and additions to the District's Electric System; and

WHEREAS, the Board of Directors has determined to use the construction authorization applicable to the Commission's Opinions and Orders described in Exhibit A hereto to issue its 2002 Series B Bonds to finance the costs of acquisition and construction of various capital improvements to its Electric System; and

WHEREAS, the Board of Directors has been presented with a Purchase Contract, dated September 13, 2002 (the "Purchase Contract"), by and among the District and a group of purchasers represented by and including Bear, Stearns & Co. Inc., Goldman, Sachs & Co., Morgan Stanley & Co. Incorporated, J.P. Morgan Securities Inc. and Salomon Smith Barney (hereinafter collectively referred to as the "Purchasers"), providing for the purchase of \$570,000,000 2002 Series B Bonds; and

WHEREAS, the Board of Directors desires to sell \$570,000,000 2002 Series B Bonds to the Purchasers pursuant to the terms and conditions of said Purchase Contract to provide moneys to carry out the aforesaid purposes of the District; and

WHEREAS, Title 48, Chapter 17, Article 7, of the Arizona Revised Statutes requires that the private sale of Bonds be subject to prior approval by a majority of the members of the Council of the District and that no Bonds be issued unless the Council, by resolution adopted by an affirmative vote of a majority of its members, ratifies and confirms the amount of the Bonds

authorized to be issued by the Board (together the "Council Approval and Ratification Requirement"; and

WHEREAS, the Board of Directors desires to approve the preparation, distribution and the execution of an Official Statement for the 2002 Series B Bonds; and

WHEREAS, the Board of Directors desires to authorize the proper officers of the District to take all necessary steps to complete the issuance, sale and delivery as aforesaid of the \$570,000,000 2002 Series B Bonds;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT AS FOLLOWS:

SECTION 1. Series Resolution. This series resolution (hereinafter referred to as "Resolution Authorizing the Issuance and Sale of \$570,000,000 2002 Series B Bonds" or as "2002 Series B Resolution") is adopted in accordance with the provisions of the Resolution and pursuant to the authority contained in Chapter 17, Title 48, Arizona Revised Statutes, as amended. The District has adopted a Supplemental Resolution Amending and Restating the Resolution Concerning Revenue Bonds (the "Amended and Restated Resolution") which contains certain amendments to the Resolution. The Amended and Restated Resolution will become effective in accordance with the Resolution only upon the District obtaining the written consent of the holders of two-thirds in principal amount of the Revenue Bonds then outstanding under the Resolution. Upon becoming effective, all of the provisions of the Amended and Restated Resolution will be binding and controlling with respect to all outstanding Revenue Bonds, including the 2002 Series B Bonds.

SECTION 2. Definitions. This 2002 Series B Resolution and the Resolution are herein collectively referred to as the "Resolutions." All terms which are defined in the Resolution shall have the same meanings, respectively, in this 2002 Series B Resolution, as such terms are given in the Resolution. In this 2002 Series B Resolution:

"Code" shall mean the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder.

"DTC" shall mean The Depository Trust Company or any successor thereto.

"Information Services" shall mean Financial Information, Inc.'s Daily Called Bond Service, 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302; Kenny Information Service's Called Bond Service, 65 Broadway, 16th Floor, New York, New York 10006; Moody's Municipal and Government, 99 Church Street, 8th Floor, New York, New York 10007, attention: Municipal News Report; and Standard & Poor's Called Bond Record, 25 Broadway, New York, New York 10004; or to such other addresses and/or such other national information services providing information or disseminating notices of redemption of obligations similar to the 2002 Series B Bonds.

“Interest Payment Date” shall mean each January 1 and July 1 of each year so long as 2002 Series B Bonds are Outstanding, commencing July 1, 2003.

“2002 Series B Bonds” shall mean the Bonds authorized by Section 3 hereof.

“Representation Letter” shall mean the DTC Blanket Letter of the Representation among the District, the Trustee and DTC, attached as Exhibit B hereto.

“Securities Depositories” shall mean The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax - (516) 227-4039 or 4190; Midwest Securities Trust Company, Capital Structures-Call Notification, 440 South LaSalle Street, Chicago, Illinois 60605, Fax - (312) 663-2343; Philadelphia Depository Trust Company, Reorganization Division, 1900 Market Street, Philadelphia, Pennsylvania 19103, Attention: Bond Department, Fax - (215)496-5058; or to such other addresses and/or such other registered securities depositories holding substantial amounts of obligations of types similar to the 2002 Series B Bonds.

“Trustee” shall mean The Bank of New York, New York, New York appointed pursuant to Article IX of the Resolution, and its successor or successors and any other corporation which may at any time be substituted in its place pursuant to the Resolution.

SECTION 3. Principal Amount, Designation, Series and Allocations. Pursuant to the provisions of the Resolutions, the District is hereby authorized to issue and sell Bonds in the aggregate principal amount of \$570,000,000. Such Bonds shall be designated as “Salt River Project Electric System Revenue Bonds, 2002 Series B”. The amount of 2002 Series B Bonds designated for acquisition and construction purposes is \$570,000,000.

SECTION 4. Purpose. The purposes for which the 2002 Series B Bonds are issued are: 1) to provide moneys for the costs of acquisition and construction of various capital improvements to the District’s Electric System, including reimbursing the District for amounts spent relating thereto and 2) to pay financing costs.

SECTION 5. Dates, Maturities and Interest. (a) The 2002 Series B Bonds shall be dated, and shall bear interest from, their date of delivery.

(b) The 2002 Series B Bonds shall bear interest at the following rates per annum and shall mature on January 1 in the following years in the following principal amounts:

<u>Year of Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2016	\$3,080,000	4.00 %
2017	18,185,000	5.00
2020	28,495,000	5.00
2021	21,960,000	5.00
2022	32,960,000	5.00

2024	55,675,000	4.80
2025	58,095,000	5.00
2026	17,075,000	5.00
2031	222,985,000	5.00
2032	111,490,000	4.75

(c) Interest on the 2002 Series B Bonds shall be payable on July 1, 2003, and semiannually thereafter on January 1 and July 1 of each year to maturity or redemption, to the registered owner of the 2002 Series B Bonds as of the immediately preceding December 15 or June 15, respectively.

SECTION 6. Denominations, Numbers and Letters. The 2002 Series B Bonds shall be issued only as fully registered bonds without coupons, subject to the provisions regarding a book-entry only system as described in Section 7 hereof, and the 2002 Series B Bonds shall be issued in the denomination of \$5,000, or any integral multiple thereof, in all cases not exceeding the aggregate principal amount of 2002 Series B Bonds maturing on the maturity date of the bond for which the denomination is to be specified.

SECTION 7. Book Entry 2002 Series B Bonds. (a) Beneficial ownership interests in the 2002 Series B Bonds will be available in book-entry form only. Purchasers of beneficial ownership interests in the 2002 Series B Bonds will not receive certificates representing their interests in the 2002 Series B Bonds and will not be Bondholders or owners of the Bonds under the Resolution. DTC, an automated clearinghouse for securities transactions, will act as the Securities Depository for the 2002 Series B Bonds. The 2002 Series B Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each maturity of the 2002 Series B Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC holds securities that its participants ("Participants") deposit with DTC. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations ("Direct Participants"). Access to the DTC system is also available to others, such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants").

Purchases of the 2002 Series B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2002 Series B Bonds on DTC's records. The ownership interest of each actual purchaser of each 2002 Series B Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmation providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2002 Series B Bonds are to be accomplished by entries made on the books of Participants acting on behalf of

Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2002 Series B Bonds, except in the event that use of the book-entry system for the 2002 Series B Bonds is discontinued.

To facilitate subsequent transfers, all 2002 Series B Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of 2002 Series B Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2002 Series B Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2002 Series B Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners, will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2002 Series B Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2002 Series B Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2002 Series B Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Trustee, on each payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the District or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2002 Series B Bonds at any time by giving reasonable notice to the District. Under such circumstances, in the event that a successor securities depository is not obtained, the 2002 Series B Bond certificates are required to be printed and delivered. The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the 2002 Series B Bond certificates will be printed and delivered.

Beneficial Owners will not be recognized by the Trustee as registered owners for purposes of this 2002 Series B Resolution, and Beneficial Owners will be permitted to exercise the rights of registered owners only indirectly through DTC and the Direct and Indirect Participants.

(b) In the event definitive 2002 Series B Bonds are issued, the provisions of the Resolution, including but not limited to Sections 304 and 305 of the Resolution, shall apply to, among other things, the transfer and exchange of such definitive 2002 Series B Bonds and the method of payment of principal or Redemption Price of and interest on such definitive 2002 Series B Bonds. Whenever DTC requests the District and the Trustee to do so, the Trustee and the District will cooperate with DTC in taking appropriate action after reasonable notice (i) to make available one or more separate definitive 2002 Series B Bonds evidencing the Bonds to any DTC participant having 2002 Series B Bonds credited to its DTC account or (ii) to arrange for another securities depository to maintain custody of definitive 2002 Series B Bonds.

(c) Notwithstanding any other provision of the Resolution to the contrary, so long as any 2002 Series B Bond is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to the principal of and interest on such 2002 Series B Bond and all notices with respect to such 2002 Series B Bond shall be made and given to Cede & Co., as nominee of DTC, as provided in the Representation Letter. All of the provisions of the Representation Letter, shall be deemed to be a part of this 2002 Series B Resolution as fully and to the same extent as if incorporated verbatim herein, with such changes, amendments, modifications, insertions, omissions or additions, as may be approved by the President, or the Vice President, or the General Manager, or the Associate General Manager, Commercial and Customer Services and Chief Financial Executive, or the Corporate Treasurer or any Assistant Treasurer of the District. Execution by said President, or Vice President, or General Manager, or Associate General Manager, Commercial and Customer Services and Chief Financial Executive, or Corporate Treasurer or any Assistant Treasurer of the Representation Letter shall be deemed to be conclusive evidence of approval of any such change amendments, modifications, insertions, omissions or additions.

(d) In connection with any notice or other communication to be provided to Bondholders pursuant to the Resolutions by the District or the Trustee with respect to any consent or other action to be taken by Bondholders, the District or the Trustee, as the case may be, shall, to the extent possible, establish a record date for such consent or other action and give DTC notice of such record date not less than 15 calendar days in advance of such record date.

SECTION 8. Paying Agent. Subject to the provisions of Section 7 hereof, the principal of the 2002 Series B Bonds shall be payable at the designated corporate trust office of the Trustee under the Resolutions (or at the principal office of any successor Trustee appointed pursuant to the Resolutions) or at any other place which may be provided for such payment by the appointment of any other Paying Agent or Paying Agents as authorized by the Resolutions. The Trustee is hereby appointed the Paying Agent for the 2002 Series B Bonds. The interest on the 2002 Series B Bonds will be payable by check mailed by the Trustee on each Interest Payment Date.

SECTION 9. Redemption Terms and Prices. (a) Mandatory Redemption - 2002 Series B Bonds. The 2002 Series B Bonds maturing on January 1, 2031 shall be subject to redemption prior to maturity, upon random selection within a maturity by the Trustee, by operation of the Debt Service Fund to satisfy the Sinking Fund Installments set forth in Section 10 hereof, on and after January 1, 2027, at 100% of the principal amount of the 2002 Series B Bonds to be redeemed, together with accrued interest up to but not including the redemption date.

(b) Optional Redemption - 2002 Series B Bonds. The 2002 Series B Bonds maturing on and after January 1, 2014 are subject to redemption at the option of the District prior to maturity, at any time on or after January 1, 2013, as a whole or in part by random selection by the Trustee within a maturity with the same coupon from maturities selected by the District, at the Redemption Price of 100% of the principal amount of the 2002 Series B Bonds or portions thereof to be redeemed, together with accrued interest up to but not including the redemption date.

(c) Notice of Redemption. Notice to Bondholders of such redemption shall be given by mail to the registered owners of the Bonds to be redeemed, postage prepaid, not less than 25 days nor more than 50 days prior to the redemption date.

(d) Further Notice. In addition to the foregoing notice, further notice shall be given by the Trustee as set forth in this subsection (d), but no defect in said further notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as prescribed in subsection (c) above. Each further notice of redemption given hereunder shall be dated and shall state: (i) the redemption date, (ii) the Redemption Price, (iii) if fewer than all Outstanding 2002 Series B Bonds are to be redeemed, the Bond numbers (and, in the case of partial redemption, the respective principal amounts) of the 2002 Series B Bonds to be redeemed, (iv) that on the redemption date the Redemption Price will become due and payable upon each such 2002 Series B Bond or portion thereof called for redemption, and that interest with respect thereto shall cease to accrue from and after said date, (v) the CUSIP numbers of the 2002 Series B Bonds to be redeemed, (vi) the place where such 2002 Series B Bonds are to be surrendered for payment of the Redemption Price, (vii) the original date of execution and delivery of the 2002 Series B Bonds; (viii) the rate of interest payable with respect to each 2002 Series B Bond being redeemed; (ix) the maturity date of each 2002 Series B Bond being redeemed; and (x) any other descriptive information needed to identify accurately the 2002 Series B Bonds being redeemed. Each further notice of redemption shall be sent, not less than 25 days nor more than 50 days prior to the redemption date, by telecopy, registered, certified or overnight mail to all Securities Depositories and to the Information Services. Upon the payment of the Redemption Price of 2002 Series B Bonds being redeemed, each check or other transfer of funds, issued for such purpose shall, to the extent practicable, bear or indicate the CUSIP number identifying, by issue and maturity, the 2002 Series B Bonds being redeemed with the proceeds of such check or other transfer.

(e) Except with respect to the unredeemed portion of any 2002 Series B Bond being redeemed in part, neither the Trustee nor any agent of the Trustee shall be obligated to register

the transfer or exchange of any 2002 Series B Bond during the 15 days preceding the date on which notice of redemption of a 2002 Series B Bond is to be given on any Bond that has been called for redemption except the unredeemed portion of any 2002 Series B Bond being redeemed in part.

SECTION 10. Sinking Fund Installments. (a) Sinking Fund Installments are hereby established for the 2002 Series B Bonds maturing on January 1, 2031. Such Installments shall become due on each of the dates set forth in the following table in the respective amounts set forth opposite such dates in said table:

Sinking Fund Payment Date (January 1)	<u>Principal Amount</u>
2027	\$13,220,000
2028	20,515,000
2029	39,380,000
2030	78,380,000
2031	71,490,000

(b) The Sinking Fund Installments may be satisfied by the District delivering to the Trustee, no later than 45 days in advance of the date of such Sinking Fund Installment, 2002 Series B Bonds of such maturities theretofore purchased or redeemed by the District otherwise than by operation of the sinking fund redemption provided for in this Section 10.

SECTION 11. Application of the Proceeds of 2002 Series B Bonds. In accordance with the Resolution, the proceeds of the 2002 Series B Bonds shall be applied simultaneously with the delivery of the 2002 Series B Bonds, as follows:

(a) From the proceeds of the 2002 Series B Bonds, \$567,538,025.65 shall be deposited in the Construction Fund and (i) \$566,938,025.65 thereof shall be for the purpose of paying Costs of Construction, and (ii) \$600,000 thereof shall be used for the paying of the costs of the financing.

(b) From the proceeds of the 2002 Series B Bonds, \$6,247,000 shall be deposited in the Debt Reserve Account of the Debt Service Fund.

(c) Of the balance of said 2002 Series B Bond proceeds, (i) \$3,070,628.55 shall be used for the payment of the Underwriter's discount.

SECTION 12. Form of 2002 Series B Bonds. Subject to the provisions of the Resolutions, the 2002 Series B Bonds and the Certificate of Authentication shall be in substantially the form of Exhibit C hereto.

SECTION 13. Execution, Delivery and Authentication. The 2002 Series B Bonds shall be executed by imprinting thereon the manual or facsimile signature of the President or Vice President of the District and by affixing thereto the corporate seal of the District or

facsimile thereof and said signature and seal shall be attested by the manual or facsimile signature of the Secretary or an Assistant Secretary of the District. The President or the Corporate Treasurer of the District or their designees are hereby authorized and directed to deliver the 2002 Series B Bonds executed in the foregoing manner to the Purchasers upon payment of the purchase price specified in Section 14 hereof pursuant to the terms and conditions of the Purchase Contract. There is hereby authorized to be printed or otherwise reproduced on the back of, or attached to, each of the 2002 Series B Bonds the approving opinion of McCarter & English, LLP, Bond Counsel, and a certification executed by the manual or facsimile signature of the Secretary or an Assistant Secretary of the District with respect to the form and delivery of said opinion. All Officers of the District and employees designated by Officers are authorized to sign and execute all certificates and documents required for the sale and delivery of the 2002 Series B Bonds.

The Trustee (or its duly designated agent) as Authenticating Agent is hereby authorized and directed to manually execute the Certificate of Authentication appearing on the 2002 Series B Bonds. No 2002 Series B Bond shall be issued and delivered hereunder without the manual signature of an authorized representative of the Trustee or its Authenticating Agent appearing on such Certificate of Authentication.

SECTION 14. Purchase Contract. The Purchase Contract, which is attached hereto as Exhibit **D**, is hereby approved. The 2002 Series B Bonds are hereby sold to the Purchasers, pursuant to the terms and conditions of the Purchase Contract, at an aggregate purchase price of \$573,785,025.65 calculated as follows: \$570,000,000 aggregate principal amount of 2002 Series B Bonds, plus a net Original Issue Premium of \$6,855,654.20, and less Underwriters' Discount in the amount of \$3,070,628.55; and the President, or the Vice President, or the General Manager, or the Associate General Manager, Commercial and Customer Services and Chief Financial Executive or the Corporate Treasurer of the District are each hereby authorized and directed to execute the Purchase Contract and to deliver the same for and on behalf of the District to the Purchasers.

SECTION 15. Amortization of Financing Costs. In order to provide accurate accounting records and reports, the issuance costs of approximately \$600,000 resulting from the issuance of the 2002 Series B Bonds shall be amortized monthly over the life of the 2002 Series B Bonds.

SECTION 16. Investment of Good Faith Deposit. The proceeds of the good faith deposit in the amount of \$5,700,000 received by the District from the Purchasers shall be deposited by the District with a depositary in a special account established by the Corporate Treasurer of the District. Pending the application of the moneys so deposited in said special account, such moneys, or so much thereof as may be practicable, shall be invested by such depositary on behalf of the District in direct obligations of or obligations guaranteed by the United States or in repurchase agreements with banks or brokerage houses fully secured by such obligations, all as the Corporate Treasurer of the District shall specify or direct in writing.

SECTION 17. Approval of Final Official Statement and Continuing Disclosure Certificate. The preparation and distribution of the Preliminary Official Statement dated

September 3, 2002, attached hereto as Exhibit E, is hereby ratified and confirmed and the Preliminary Official Statement is hereby deemed "final" as of its date for purposes of Securities and Exchange Commission Rule 15c2-12(b)(1), except for certain omissions permitted thereunder and except for changes permitted by other applicable law. Authorized Officers and staff of the District are authorized to prepare and deliver to the Purchasers an Official Statement, dated the date hereof, relating to the 2002 Series B Bonds substantially in the form attached hereto as Exhibit F. The form of the Continuing Disclosure Agreement attached hereto as Exhibit G is hereby approved. The President, or the Vice President, or the General Manager, or the Associate General Manager, Commercial and Customer Services and Chief Financial Executive or the Corporate Treasurer of the District are hereby each authorized and directed to execute and deliver the Official Statement, for and on behalf of the District, to the Purchasers, and the Continuing Disclosure Agreement to the Trustee. The Secretary or an Assistant Secretary of the District are each hereby authorized to attest signatures, if required.

SECTION 18. Arbitrage Covenant. The District covenants and agrees that it shall not direct or permit any action which would cause any 2002 Series B Bond to be an "arbitrage bond" within the meaning of Section 148 of the Code or direct or permit any action inconsistent with the applicable regulations thereunder as amended from time to time and as applicable to the 2002 Series B Bonds.

SECTION 19. Tax Exemption. In order to maintain the exclusion from Federal gross income of interest on the 2002 Series B Bonds, the District shall comply with the provisions of the Code applicable to the 2002 Series B Bonds, including without limitation the provisions of the Code relating to the computation of the yield on investments of the gross proceeds of the 2002 Series B Bonds, reporting of earnings on the gross proceeds of the 2002 Series B Bonds, and rebate of excess earnings to the Department of the Treasury of the United States of America and shall not take any action or permit any action that would cause the interest on the 2002 Series B Bonds to be included in gross income under Section 103 of the Code or cause interest on the 2002 Series B Bonds be an item of tax preference under Section 57 of the Code. In furtherance of the foregoing, the District shall comply with the Tax Certificate as to Arbitrage and the Provisions of Sections 141-150 of the Internal Revenue Code of 1986, to be executed by the President, or the Vice President, or the General Manager, or the Associate General Manager, Commercial and Customer Services and Chief Financial Executive, or the Corporate Treasurer or any Assistant Treasurer of the District at the time the 2002 Series B Bonds are issued, as such Tax Certificate may be amended from time to time, as a source of guidance for achieving compliance with the Code, and such officers are hereby authorized and directed to execute and deliver such Tax Certificate for and on behalf of the District.

SECTION 20. Severability. If any one or more of the covenants or agreements provided in this 2002 Series B Resolution on the part of the District or any Fiduciary to be performed should be contrary to law, then such covenant or covenants or agreement or agreements shall be deemed severable from the remaining covenants and agreements, and shall in no way affect the validity of the other provisions of this 2002 Series B Resolution, so long as this 2002 Series B Resolution as so modified continues to express, without material change, the original intentions of the District or any Fiduciary as to the subject matter of this 2002 Series B

Resolution and the deletion of such portion of this 2002 Series B Resolution will not substantially impair the respective benefits or expectations of the District or any Fiduciary.

SECTION 21. Effective Date. This 2002 Series B Resolution shall take effect immediately upon adoption.

EXHIBIT C



CERTIFICATE

I, TERRILL A. LONON, the duly appointed, qualified, and acting Corporate Secretary of the Salt River Project Agricultural Improvement and Power District ("SRP"), a special district under Title 48 of the Arizona Revised Statutes, DO HEREBY CERTIFY that attached hereto is a true and correct copy of a resolution entitled "**RESOLUTION OF THE COUNCIL APPROVING THE PRIVATE SALE BY THE SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT OF \$570,000,000 SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS, 2002 SERIES B**" as adopted by a majority of the SRP Council Members at a meeting held on September 13, 2002, at which a quorum was present and voted, and that no change, revision, amendment, or addendum has been made subsequent thereto.

IN WITNESS WHEREOF, I have set my hand and seal of the Salt River Project Agricultural Improvement and Power District, this 27th day of September 2002.

A handwritten signature in cursive script, appearing to read "Terrill A. Lonon", is written over a horizontal line.

Terrill A. Lonon
Corporate Secretary



**RESOLUTION OF THE COUNCIL APPROVING THE
PRIVATE SALE BY THE SALT RIVER PROJECT
AGRICULTURAL IMPROVEMENT AND POWER
DISTRICT OF \$570,000,000 SALT RIVER PROJECT
ELECTRIC SYSTEM REVENUE BONDS, 2002 SERIES B**

WHEREAS, The Board of Directors (the "Board") of the Salt River Project Agricultural Improvement and Power District (the "District"), by resolution entitled "Resolution Concerning Revenue Bonds," dated as of November 1, 1972, as amended, has created and established an issue of Salt River Project Electric System Revenue Bonds (the "Bonds"), which Bonds may be authorized from time to time pursuant to Series Resolutions; and

WHEREAS, the Board adopted on this date its RESOLUTION AUTHORIZING THE ISSUANCE AND SALE OF \$570,000,000 SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS, 2002 SERIES B OF THE SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, AND PROVIDING FOR THE FORM, DETAILS AND TERMS THEREOF (the "2002 Series B Resolution") (the form of which is attached hereto as Exhibit A), that, among other things, fixes the form, terms and conditions of the 2002 Series B Bonds, authorizes the issuance of the 2002 Series B Bonds and the private sale of the 2002 Series B Bonds to purchasers represented by and including Bear, Stearns & Co., Inc., Goldman, Sachs & Co., Morgan Stanley and Co. Incorporated, J.P. Morgan & Co. and Salomon Smith Barney (hereinafter collectively referred to as the "2002 Series B Purchasers") pursuant to the terms and conditions of a Purchase Contract, dated September 13, 2002 by and among the District and the 2002 Series B Purchasers (the "2002 Series B Purchase Contract") (the form of which is attached hereto as Exhibit B); and

WHEREAS, pursuant to the requirements of Title 48, Chapter 17, Article 7, of the Arizona Revised Statutes, no bonds may be issued by the District unless the Council, by resolution adopted by an affirmative vote of a majority of its members, ratifies and confirms the amount of the Bonds authorized to be issued by the Board and, if the Board determines to sell Bonds at private sale, such sale shall be subject to prior approval by a majority of the members of the Council;

NOW, THEREFORE, BE IT RESOLVED, by the members of the Council of the Salt River Project Agricultural Improvement and Power District as follows:

- (i) The maturities, redemption provisions and other terms and conditions of the 2002 Series B Bonds, as contained in the 2002 Series B Resolution, are hereby ratified, confirmed and approved.
- (ii) The private sale of \$570,000,000 2002 Series B Bonds to the 2002 Series B Purchasers, pursuant to the 2002 Series B Resolution and the 2002 Series B Purchase Contract at an aggregate price of \$573,785,025.65, calculated as

follows: \$570,000,000 aggregate principal amount of 2002 Series B Bonds, plus \$6,855,654.20 Original Issue Premium, less Underwriters' Discount in the amount of \$3,070,628.55; plus accrued interest from the dated date thereof to the date of delivery and payment therefor is hereby ratified, confirmed and approved.

- (iii) This resolution shall take effect immediately.

EXHIBIT D

\$570,000,000
SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT, ARIZONA

Salt River Project Electric System Revenue Bonds,
2002 Series B

PURCHASE CONTRACT

September 13, 2002

Salt River Project Agricultural Improvement
and Power District
PAB 215
Post Office Box 52025
Phoenix, Arizona 85072-2025

Ladies and Gentlemen:

The undersigned, acting on behalf of themselves and the dealers listed in Annex A attached hereto, as said list may from time to time be changed by the undersigned at or prior to the Closing (herein collectively called the "Purchasers"), offer to enter into the following agreement with Salt River Project Agricultural Improvement and Power District (herein sometimes called the "District"), which, upon your acceptance of this offer, will be binding upon you and upon the Purchasers. The undersigned need not advise you of any change in such list but in no event shall any of the undersigned be eliminated from such list. The offer made hereby is subject to your acceptance thereof by execution of this Purchase Contract and its delivery to the undersigned at or prior to 2:00 P.M., Phoenix time, on the date first above written.

1. Upon the terms and conditions and upon the basis of the representations hereinafter set forth, the Purchasers, jointly and severally, hereby agree to purchase from you, and you hereby agree to sell to the Purchasers, all (but not less than all) of the \$570,000,000 aggregate principal amount of your Salt River Project Electric System Revenue Bonds, 2002 Series B (herein called the "Bonds"), dated their date of delivery, at an aggregate price of \$573,785,025.65, which reflects a net original issue premium of \$6,855,654.20 and an underwriters' discount of \$3,070,628.55. The Bonds shall bear interest payable July 1, 2003, and thereafter semi-annually in each year on January 1 and July 1, at the rate or rates and shall mature on the dates and in the principal amounts set forth on the inside front cover of the Official Statement relating to the Bonds, dated September 13, 2002 (the "Official Statement"). Capitalized terms used herein which are not otherwise defined have the meaning given such terms in the Official Statement.

The Bonds shall be as described in, and shall be issued pursuant to, the Resolution Concerning Revenue Bonds adopted by the Board of Directors of the District as of November 1, 1972, as amended and supplemented, and the Resolution Authorizing The Issuance and Sale of

\$570,000,000 Salt River Project Electric System Revenue Bonds, 2002 Series B of the Salt River Project Agricultural Improvement and Power District and Providing for the Form, Details and Terms Thereof adopted by the Board of Directors of the District on September 13, 2002, with only such changes as shall be mutually agreed upon in writing between you and the undersigned. Such resolution in the form adopted by the Board of Directors of the District (including any such change so made) is herein called the "Supplemental Resolution," and such Resolution Concerning Revenue Bonds, as theretofore amended and supplemented and as further amended by the Supplemental Resolution, is hereinafter called the "Resolution." The Bonds are subject to redemption at the times, in the manner and upon the terms provided in the Resolution. Pursuant to the Resolution, The Bank of New York, New York, New York (herein called the "Trustee"), has been appointed trustee.

2. The Purchasers agree to make a bona fide public offering of all of the Bonds at not in excess of an initial public offering price or prices (or yields less than the offering yields) set forth on the cover of the Official Statement.

3. You hereby acknowledge receipt from the Purchasers of a good faith deposit delivered to the District by wire transfer, or at the discretion of the District, by certified or official bank check or checks, in the aggregate amount of \$5,700,000, which you agree to hold as security for the performance by the Purchasers of their obligation to accept and pay for the Bonds at the Closing (as such term is defined in Section 6 hereof), and in the event of their compliance with such obligation such funds shall be applied to the purchase price of the Bonds as provided in Section 6 hereof. Pending the application of such funds to such purpose, such funds may be invested by the District and the District shall be entitled to any income from any such investment. If you do not accept this offer, such funds shall be immediately returned to the undersigned. In the event of your failure to deliver the Bonds at the Closing, or if you shall be unable at or prior to the date of the Closing to satisfy the conditions to the obligations of the Purchasers contained herein, or if the obligations of the Purchasers shall be terminated for any reason permitted by this Purchase Contract, such funds, without interest, shall be immediately returned to the undersigned. The return of such funds shall constitute a full release and discharge of all claims and damages against the District for such failure to deliver the Bonds at the Closing. If the Purchasers fail (other than for a reason permitted hereunder) to accept and pay for the Bonds upon tender thereof by you at the Closing as herein provided, such funds shall be retained by you as and for full liquidated damages for such failure and for any and all defaults hereunder on the part of the Purchasers, and the retention of such funds shall constitute a full release and discharge of all claims and damages for such failure and for any and all such defaults.

4. (a) The District has previously delivered to the Purchasers the Preliminary Official Statement dated September 3, 2002 (the "Preliminary Official Statement"), which the District has deemed "final" as of its date for purposes of Securities and Exchange Commission Rule 15c2-12(b)(1), except for certain omissions permitted thereunder and except for changes permitted by other applicable law. The District hereby ratifies, confirms and approves the use of the Preliminary Official Statement for distribution to prospective purchasers and investors.

(b) As soon as practicable after its preparation, but in no event later than seven business days after the District's acceptance of this Purchase Contract and in order to comply

with Rule 15c2-12 and other applicable securities laws, rules or regulations, you shall deliver to the undersigned (i) six executed copies of the Official Statement which is a "final official statement" for purposes of Rule 15c2-12(e)(3), which copies of the Official Statement were executed on behalf of the District by its President or Vice President and its General Manager or Associate General Manager, Commercial & Customer Services and Chief Financial Executive, and include as an Appendix thereto the combined financial statements of the Salt River Project as of and for the fiscal years ended April 30, 2002 and 2001, together with the report of PricewaterhouseCoopers LLP, dated May 30, 2002, signed and delivered by that firm with respect to the fiscal year ended April 30, 2002, and (ii) a sufficient quantity of conformed copies of the Official Statement to enable the Purchasers to comply with the rules of the Securities and Exchange Commission and the Municipal Securities Rulemaking Board.

(c) At the time of your acceptance hereof, you shall deliver to the undersigned six certified copies (one copy at the time of such acceptance and five copies as soon as practicable thereafter) of the Resolution in the form referred to in Section 1 hereof.

You hereby authorize any and all of this material (including specifically copies of the Official Statement, the Resolution and the information therein contained) to be used in connection with the public offering and sale of the Bonds.

5. (a) You represent and warrant to each of the Purchasers that (i) at its date, the statements and information contained in the Preliminary Official Statement were true and correct and such Preliminary Official Statement did not omit any statement or information which should be included therein for the purposes for which the Preliminary Official Statement is to be used or which is necessary to make the statements and information contained therein not misleading; and (ii) both at its date and at the time of the Closing, the statements and information contained in the Official Statement (as the same may be supplemented or amended with our approval) will be true and correct and such Official Statement will not omit any statement or information which should be included therein for the purposes for which the Official Statement is to be used or which is necessary to make the statements and information contained therein not misleading.

(b) For a twenty-five day period after the date of the Closing, if any event shall occur that would cause the Official Statement, as then supplemented or amended, to contain any untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and if in the Purchasers' opinion or that of the District such event requires the preparation and publication of a supplement or amendment to the Official Statement, the District will cause the Official Statement to be amended or supplemented in a form approved by the Purchasers. The Purchasers shall pay the cost of any such supplement or amendment.

6. At 10:00 A.M., New York time, on September 26, 2002, or at such other time as shall have been mutually agreed upon by you and the undersigned, you will deliver, or cause to be delivered, the Bonds, to the undersigned through The Depository Trust Company, New York, New York ("DTC"), in definitive form, bearing proper CUSIP numbers, duly executed on your behalf, together with the other documents hereinafter mentioned as delivered to the undersigned, and the undersigned, on behalf of the Purchasers, will accept such delivery and pay the balance

of the purchase price of the Bonds as set forth in Section 1 hereof (after deducting the portion of the purchase price paid by the funds referred to in Section 3 hereof) by delivering to the District a wire transfer, or at the discretion of the District, a certified or official bank check or checks, for such balance payable in federal funds to the order of the District. The District shall apply the funds referred to in Section 3 hereof and in this Section 6 for the purpose stated in the Official Statement.

Payment for the delivery of the Bonds as aforesaid shall be made at such place as agreed to by you and the Purchasers. Such payment and delivery is herein called the "Closing." The Bonds shall be prepared in fully registered, book-entry-only form and delivered to DTC in denominations of one Bond for each stated maturity in the aggregate principal amount thereof as set forth on the cover of the Official Statement, and shall be made available to Bear, Stearns & Co. Inc., as representative of the Purchasers, at least one (1) business day prior to the Closing for purposes of inspection.

7. The obligations of the Purchasers hereunder shall be subject to the performance by the District of its obligations to be performed hereunder at and prior to the Closing, to the accuracy of the representations and warranties of the District herein as of the date hereof and the date of the Official Statement and as of the time of the Closing, and, in the discretion of the undersigned, to the following conditions:

(a) At the Closing, the Resolution shall be in full force and effect and shall not have been changed from the forms theretofore delivered to the undersigned except as may have been agreed to in writing by the undersigned, and you shall have adopted and there shall be in full force and effect such additional resolutions as shall, in the opinion of McCarter & English, LLP, as Bond Counsel, be necessary in connection with the transactions contemplated hereby.

(b) The Purchasers shall have the right to terminate their obligations under this Purchase Contract to purchase, to accept delivery of and to pay for the Bonds by notifying the District of their election to do so if, after the execution hereof and prior to the Closing: (a) the marketability of the Bonds or the market price thereof, in the opinion of the undersigned, has been materially adversely affected by (i) an amendment to the Constitution of the United States, (ii) any legislation (A) enacted by the United States, (B) recommended to the Congress or otherwise endorsed for passage, by press release, other form of notice or otherwise, by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or (C) presented as an option for consideration by either such Committee, by the staff of such Committee or by the staff of the Joint Committee on Taxation of the United States Congress, or favorably reported for passage to either House of the Congress by any Committee of such House or by a Conference Committee of both Houses to which such legislation has been referred for consideration, or (iii) any decision of any court of the United States or by any ruling or regulation (final, temporary or proposed) on behalf of the Treasury Department of the United States, the Internal Revenue Service or any other authority of the United States or any comparable legislative, judicial or administrative development affecting the federal tax status of the District, its property or income, or the interest on its bonds (including the Bonds); (b) there

shall occur any outbreak of hostilities or any national or international calamity, crisis or emergency or other calamity or crisis, or an escalation of any thereof, the effect of which on the financial markets of the United States is, in the reasonable judgment of the undersigned, to materially adversely affect the market for the Bonds; (c) a general banking moratorium shall have been declared by federal, New York or Arizona authorities or a major financial crisis or a material disruption in commercial banking or securities settlement or clearances services shall have occurred which in the reasonable judgment of the undersigned, would make the marketing of municipal revenue bonds generally impractical; (d) there shall have been any downgrading, suspension or withdrawal, or any official statement as to a possible downgrading, suspension or withdrawal of any rating by Moody's Investors Service Inc. or Standard & Poor's Rating Group of any securities issued by the District, including the Bonds, (e) there shall exist any event which in the reasonable judgment of the undersigned either (A) makes untrue or incorrect in any material respect any statement or information contained in the Official Statement or (B) is not reflected in the Official Statement but should be reflected therein in order to make the statements and information contained therein under the circumstances in which made not misleading in any material respect, or (f) there shall be in force a general suspension of trading, minimum or maximum prices for trading shall have been fixed and be in force or maximum ranges for prices for securities shall have been required and be in force on the New York Stock Exchange or other national stock exchange.

(c) At the Closing, the undersigned shall receive the unqualified approving opinion of McCarter & English, LLP, as Bond Counsel, addressed to the undersigned and dated the day of the Closing, in substantially the same form attached as Appendix E to the Official Statement.

(d) At the Closing, the undersigned shall receive the unqualified opinion of McCarter & English, LLP, as Bond Counsel to the District, dated the date of Closing, to the effect that:

(i) The District has duly performed all obligations to be performed by it necessary for the issuance of the Bonds on or prior to the date of the Closing pursuant to the Resolution;

(ii) The terms and provisions of the Bonds and the Resolution conform as to form and tenor with the summary in the Official Statement;

(iii) This Purchase Contract and the Continuing Disclosure Agreement have been duly authorized, executed and delivered by the District and constitute valid and legally binding agreements upon the part of the District, in accordance with their terms;

(iv) The issuance of the Bonds as additional Bonds under the Resolution is authorized by and complies with the terms of the Resolution;

(v) The Bonds are exempted securities within the meaning of Section 3(a)(2) of the Securities Act of 1933, as amended, and Section 304(a)(4) of the Trust Indenture Act of 1939, as amended, to the extent provided in such Acts, respectively; and it is not

necessary in connection with the sale of the Bonds to the public to register the Bonds under the Securities Act of 1933, as amended, or to qualify the Resolution under the Trust Indenture Act of 1939, as amended; and

(vi) On the basis of the documents which have been reviewed, to the best of their knowledge, information contained in the Preliminary Official Statement and the Official Statement under the captions "INTRODUCTION," "PLAN OF FINANCE," "THE RECAPITALIZATION PLAN," "THE 2002 SERIES B BONDS," "SECURITY FOR 2002 SERIES B BONDS," "LEGALITY OF REVENUE BONDS FOR INVESTMENT," "TAX MATTERS" and the first paragraph under the caption "CONTINUING DISCLOSURE" and "Appendix C - Summary of the Resolution," with respect to legal matters relating to the District and its powers, and the statutes referred to therein, and legal and governmental proceedings, contracts and other documents, did not, as of the respective dates thereof and, with respect to the Official Statement, on the date of the Closing does not contain any untrue statement of material fact and is not materially misleading and does not omit any statement which should be included or referred to therein in order to make the statements made, in light of the circumstances under which they are made, not misleading.

In rendering the foregoing opinions, it is understood that such counsel need express no opinion as to engineering, financial, technical or statistical information contained in the Preliminary Official Statement and the Official Statement, including the Appendices thereto.

(e) At the Closing, the undersigned shall receive the unqualified opinion of Jane D. Alfano, Corporate Counsel, dated the day of the Closing, to the effect that:

(i) The District has duly performed all obligations to be performed by it necessary for the issuance of the Bonds on or prior to the day of the Closing pursuant to the Resolution;

(ii) Neither the execution or delivery by the District of this Purchase Contract, the Resolution or the Continuing Disclosure Agreement, nor the compliance by the District with the terms and conditions thereof conflicts with or results in a breach of or will conflict with or result in a breach of any of the terms or provisions of any Arizona or federal law particularly applicable to the authority or powers of the District with respect thereto (but not including any provisions of Arizona law applicable to tax or securities matters or federal law applicable to tax or securities matters), in force on the date of such opinion, or (so far as is known to such counsel after inquiry with respect thereto) any regulation, order, writ, injunction or decree applicable to the District of any Arizona or federal court or governmental instrumentality, or results or will result in a breach of any of the terms or provisions of the petition for creation, as amended, of the District or any agreement or instrument to which the District is a party or by which the District is bound, or in any such case constitutes or will constitute a default thereunder, or results or will result in the creation or imposition of any mortgage, charge, pledge or other lien or encumbrance upon any of the properties or assets of the District other than the pledge contemplated by the Resolution;

(iii) All consents, approvals or other actions by or filings with any Arizona or federal governmental authority required for the execution and delivery by the District of this Purchase Contract, the Resolution and the Continuing Disclosure Agreement, and for the performance by the District of the transactions required thereby, have been duly obtained or made and are in full force and effect; and

(iv) On the basis of the documents which have been reviewed, to the best of her knowledge, the information in the Preliminary Official Statement and the Official Statement with respect to statutes, regulations (but not including any provisions of Arizona law applicable to tax or securities matters or federal law applicable to tax or securities matters), legal and governmental proceedings and contracts did not as of the respective dates thereof and, with respect to the Official Statement as of the date of Closing does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they are made, not misleading.

In rendering the foregoing opinions, it is understood that such counsel need express no opinion as to engineering, financial, technical or statistical information contained in the Preliminary Official Statement and the Official Statement, including the Appendices thereto.

(f) At the Closing, the undersigned shall receive the unqualified opinion of Jennings, Strouss & Salmon, P.L.C., legal advisors to the District, dated the day of the Closing, to the same effect as the certificate described in subsection (j) of this Section 7 and to the effect that:

(i) The District owns and operates the Electric System (as defined in the Resolution and as existing on the Closing Date) and has good title to, or other valid property rights necessary for the operation of the Electric System in, all properties comprising the Electric System, subject only to certain rights of the United States, the rights, if any, of the holders of Prior Lien Bonds (as defined in the Resolution) and certain other rights, none of which substantially impair the operation of the Electric System by the District or the security for the Bonds;

(ii) The District had the lawful power and authority to adopt the Resolution and the Supplemental Resolution and the provisions and covenants contained therein for the payment and security of the Bonds are valid and binding upon the District; and

(iii) No legislation has been enacted by the Arizona legislature adversely affecting in any manner the power and authority of the District to authorize, issue, execute and deliver the Bonds, the Continuing Disclosure Agreement or this Purchase Contract.

(g) At the time of the execution of this Purchase Contract and at the Closing, the undersigned shall receive a letter, dated the date of delivery thereof, of PricewaterhouseCoopers LLP, in substantially the form attached hereto as Annex B.

(h) At the Closing, the undersigned shall receive a letter, dated within five business days of the Closing, of PricewaterhouseCoopers LLP, stating that they consent to the use of their report dated May 30, 2002 for inclusion in Appendix A of the Preliminary Official Statement and the Official Statement.

(i) At the Closing, the undersigned shall receive a letter, dated within five business days of the Closing, of R.W. Beck, Inc. (the "Consulting Engineer"), stating that they consent to the use of their report for inclusion in Appendix B of the Preliminary Official Statement and the Official Statement.

(j) At the Closing, the undersigned shall receive a certificate, dated the date of the Closing, signed by the President or the Vice President and the General Manager or the Associate General Manager, Commercial & Customer Services and Chief Financial Executive, to the effect that, except as disclosed in the Official Statement, no litigation or other proceedings are pending or, to the knowledge of any of the signers of such certificate, threatened in any court or other tribunal of competent jurisdiction, State or Federal, in any way (i) restraining or enjoining the issuance, sale or delivery of any of the Bonds, or (ii) questioning or affecting the validity of this Purchase Contract, the Bonds, the Continuing Disclosure Agreement, the Resolution or the pledge by the District to the Trustee of any moneys or security provided under the Resolution, or (iii) questioning or affecting the validity of the proceedings for the authorization, sale, execution, registration or delivery of the Bonds; or (iv) questioning or affecting the organization of the Board of Directors of the District in office at any time on or prior to the date of the Closing or the legal or corporate existence of the District, or the title to office of the directors or officers thereof, or materially adversely affecting any powers of the District under the statutes of the State of Arizona, including without limitation, the power of the District to construct and operate its Electric System and to fix and collect rates, fees and other charges in connection therewith.

(k) At the Closing, the undersigned shall receive a certificate, dated the date of the Closing, signed by the President or the Vice President and the General Manager or the Associate General Manager, Commercial & Customer Services and Chief Financial Executive, to the effect that the statements and information contained in the Official Statement are true and correct in all material respects and the Official Statement does not omit any statement or information which should be included therein for the purpose for which the Official Statement is to be used or which is necessary to make the statements and information contained therein not misleading.

(l) Subsequent to the respective dates as of which information is given in the Official Statement and except as contemplated by the Official Statement, there shall not have been any change in the long-term debt of the District, or any decreases in the net current assets or accumulated net revenues of the District, or any decreases in the operating revenues or net revenues of the District, or any other change in the financial position or results of operations of the District, which, in the opinion of the undersigned, materially affects the market for the Bonds

or the sale, at the contemplated offering price, by the Purchasers of the Bonds to be purchased by them.

(m) At or prior to the Closing, the undersigned shall have received evidence that the Bonds have received credit ratings of "Aa2" and "AA" from Moody's Investors Service, Inc. and Standard and Poor's Rating Group, respectively.

(n) At the Closing, the undersigned shall receive the opinion, dated the date of the Closing, of Winston & Strawn, counsel for the Purchasers, with respect to the Bonds, the Official Statement and other related matters as the undersigned may reasonably require. In rendering such opinion, Winston & Strawn may rely as to all matters governed by Arizona law, including the creation and powers of the District, upon the opinion of Bond Counsel.

(o) At the Closing, the undersigned shall receive a certificate, dated the date of Closing, signed by the President or the Vice President and the General Manager or the Associate General Manager, Commercial & Customer Services and Chief Financial Executive, of the District, evidencing full compliance with the provisions of clause (a) of subsection 1 of Section 204 of the Resolution.

(p) At the Closing, the undersigned shall receive a certificate, dated the date of Closing, signed by the President or the Vice President and the General Manager or the Associate General Manager, Commercial & Customer Services and Chief Financial Executive, of the District, and approved by the Consulting Engineer, evidencing full compliance with the provisions of clauses (b) and (c) of subsection 1 of Section 204 of the Resolution.

(q) At the Closing, the undersigned shall receive such additional certificates and other evidence as the undersigned may deem necessary to evidence the truth and accuracy as of the time of the Closing of the representations and warranties of the District herein contained and the due performance and satisfaction by the District at or prior to such time of all agreements then to be performed and all conditions then to be satisfied by it, including a certificate or certificates as to the matters referred to in subsection (1) of this Section 7.

(r) At the Closing, the undersigned shall deliver to the Trustee its consent to the Supplemental Resolution, in a form acceptable to the Trustee.

The Official Statement and the opinions and certificates and other evidence referred to above shall be in form and substance satisfactory to the undersigned.

If the District shall be unable to satisfy the conditions to the obligations of the Purchasers contained in this Purchase Contract, or if the obligations of the Purchasers shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract shall terminate and neither the Purchasers nor the District shall be under further obligation hereunder, except as provided in Section 8 hereof and except that the funds referred to in Section 3 hereof shall be returned to the undersigned by the District.

8. The Purchasers shall be under no obligation to pay any expenses incident to the performance of the obligations of the District hereunder. The District shall pay the fees and disbursements of Jennings, Strouss & Salmon, P.L.C., of McCarter & English, LLP, of PricewaterhouseCoopers LLP, of Lazard Freres & Co LLC, financial consultant to the District, and of any consultant or engineer in respect of any matters contemplated by this Purchase Contract not directly retained by the undersigned; the cost of printing or otherwise preparing and furnishing to the undersigned the documents specified in Section 4 hereof; the cost of preparation and issuance of the Bonds and any charges made by rating agencies for the rating of the Bonds. The District shall be under no obligation to pay any expenses incident to the performance of the obligations of the Purchasers hereunder. The Purchasers shall pay the cost of printing any supplement or amendment to the Official Statement made in accordance with Section 5(b) hereof, the cost of printing the Agreement Among Underwriters and Purchase Contract; the cost of all Blue Sky memoranda used by them; all advertising expenses in connection with the public offering of the Bonds; and the fees and disbursements of Winston & Strawn, counsel to the Purchasers.

9. Any notice or other communication to be given to the District under this Purchase Contract may be given by delivering the same in writing at its address set forth above, and any notice or other communication to be given to the Purchasers under this Purchase Contract may be given by delivering the same in writing to Bear, Stearns & Co. Inc., 383 Madison Avenue, 11th Floor, New York, New York 10179.

10. This Purchase Contract is made solely for the benefit of the District and the Purchasers (including the successors or assigns of any Purchaser) and no other person shall acquire or have any right hereunder or by virtue hereof. All the representations, warranties and agreements of the District and of the Purchasers in this Purchase Contract shall remain operative and in full force and effect and shall survive delivery of and payment for the Bonds hereunder and regardless of any investigation made by or on behalf of the Purchasers. The agreements in Sections 3 and 8 hereof shall survive any termination of this Purchase Contract.

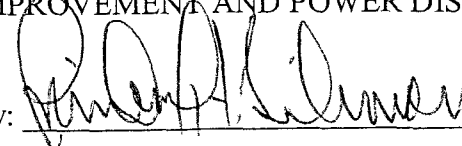
BEAR, STEARNS & CO. INC.
GOLDMAN, SACHS & CO.
MORGAN STANLEY & CO. INCORPORATED
J.P. MORGAN SECURITIES INC.
SALOMON SMITH BARNEY

By: Bear, Stearns & Co. Inc. as
representative of the Purchasers

By: _____

Accepted by resolution adopted at
Tempe, Arizona, on September 13, 2002.

SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT

By: _____

Annex A to Purchase Contract

BEAR, STEARNS & CO. INC.
GOLDMAN, SACHS & CO.
MORGAN STANLEY & CO. INCORPORATED
J.P. MORGAN SECURITIES INC.
SALOMON SMITH BARNEY

Annex B to Purchase Contract

Procedures Letter of PricewaterhouseCoopers LLP

In the opinion of Bond Counsel, assuming compliance by the District with certain tax covenants described herein, under existing law, interest on the 2002 Series B Bonds is excluded from the gross income of the owners thereof for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and interest on the 2002 Series B Bonds is not an item of tax preference under Section 57 of the Code for purposes of computing alternative minimum tax. Under existing law, interest on the 2002 Series B Bonds is exempt from income taxes imposed by the State of Arizona. In the case of certain corporate holders of the 2002 Series B Bonds, interest on the 2002 Series B Bonds will be included in the calculation of the alternative minimum tax as a result of the inclusion of interest on the 2002 Series B Bonds in "adjusted current earnings" of certain corporations. See TAX MATTERS herein.

\$570,000,000

**Salt River Project Agricultural
Improvement and Power District, Arizona
Salt River Project Electric System Revenue Bonds, 2002 Series B**

Dated: Date of Delivery

Due: January 1, as shown on inside cover

The 2002 Series B Bonds are being issued pursuant to the Resolution. The District has adopted the Amended and Restated Bond Resolution which will become effective only upon the District obtaining the consent thereto of the holders of two-thirds of all then Outstanding Revenue Bonds under the Resolution. Upon becoming effective, all of the provisions of the Amended and Restated Bond Resolution, including the provisions which reduce the Debt Reserve Requirement and the test for the issuance of additional Revenue Bonds, will be binding and controlling with respect to all Outstanding Revenue Bonds, including the 2002 Series B Bonds. The District cannot predict when the requisite number of consents will be obtained. See "THE RECAPITALIZATION PLAN — Amended and Restated Bond Resolution" and "Appendix D — Form of Amended and Restated Bond Resolution" herein. The purchasers of the 2002 Series B Bonds will be deemed to have consented to the adoption of the Amended and Restated Bond Resolution.

The 2002 Series B Bonds will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2002 Series B Bonds. Individual purchases of interests in the 2002 Series B Bonds may be made in book-entry form only, in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of such interests will not receive certificates representing their interests in the 2002 Series B Bonds. Interest with respect to the 2002 Series B Bonds is payable January 1 and July 1 of each year, commencing July 1, 2003.

The principal and redemption price, if any, of and interest on the 2002 Series B Bonds are payable by The Bank of New York, New York, New York, as Trustee, and interest will be payable by check mailed by the Trustee to the registered owner of each 2002 Series B Bond as of the immediately preceding December 15 and June 15. So long as Cede & Co. is the registered owner, the Trustee will pay such principal and redemption price, if any, of and interest on the 2002 Series B Bonds to DTC, which will remit such principal, redemption price, if any, and interest to its Direct Participants for subsequent disbursement to the Beneficial Owners of the 2002 Series B Bonds.

The 2002 Series B Bonds are subject to optional and mandatory redemption as described herein. See "THE 2002 SERIES B BONDS — Redemption" herein.

The 2002 Series B Bonds, together with heretofore and hereafter issued Revenue Bonds, are payable from and secured by a pledge of and lien on all Revenues of the District from the ownership and operation of the Electric System after the payment of Operating Expenses.

The 2002 Series B Bonds do not constitute general obligations of the District or obligations of the State of Arizona, and no holder of any of the 2002 Series B Bonds has the right to compel the exercise of the taxing powers of the District to pay the 2002 Series B Bonds or the interest thereon.

This cover page contains certain information for quick reference only. It is not intended to be a summary of all factors relating to an investment in the 2002 Series B Bonds. Investors should read this Official Statement in its entirety before making an investment decision.

The 2002 Series B Bonds are offered when, as and if issued, and subject to the approval of legality by McCarter & English, LLP, Newark New Jersey, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by Winston & Strawn, New York, New York. It is expected that the 2002 Series B Bonds will be available for delivery to DTC in New York, New York, on or about September 26, 2002.

Bear, Stearns & Co. Inc.
Morgan Stanley
Morgan Stanley & Co. Incorporated

JPMorgan

Goldman, Sachs & Co.
Salomon Smith Barney

Dated: September 13, 2002

**SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS
2002 SERIES B**

\$235,525,000 Serial Bonds

<u>Maturity (January 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price*</u>	<u>CUSIP Number**</u>
2016	\$ 3,080,000	4.00%	4.07%	99.282%	79575DPA2
2017	18,185,000	5.00	4.15	107.039	79575DPB0
2020	28,495,000	5.00	4.43	104.653	79575DPC8
2021	21,960,000	5.00	4.53	103.817	79575DPD6
2022	32,960,000	5.00	4.63	102.988	79575DPE4
2024	55,675,000	4.80	4.81	99.860	79575DPF1
2025	58,095,000	5.00	4.75	102.005	79575DPG9
2026	17,075,000	5.00	4.76	101.923	79575DPH7

\$334,475,000 Term Bonds

\$222,985,000	5.00% Term Bond due January 1, 2031	Yield: 4.82%	79575DPJ3
\$111,490,000	4 ³ / ₄ % Term Bond due January 1, 2032	Yield: 4 ⁷ / ₈ %	79575DPK0

* Each of the premium bonds is priced to the par call on January 1, 2013.

** The CUSIP numbers shown above have been assigned to this issue by an organization not affiliated with the District and are included for the convenience of the 2002 Series B Bondholders only. The District shall not be responsible for the selection of CUSIP numbers, nor any representation made as to their correctness on the 2002 Series B Bonds or as indicated herein.

MANAGEMENT OF THE DISTRICT

BOARD OF DIRECTORS

Larry D. Rovey	Robert G. Kempton
C.C. Pendergast, Jr.	Dale C. Riggins, Jr.
Elvin E. Fleming	Dwayne E. Dobson
Gilbert R. Rogers	William W. Arnett
Carl E. Weiler	Fred J. Ash
John M. White, Jr.	Wendy M. Hancock
Ann M. Burton	David Rousseau

PRINCIPAL OFFICERS AND OTHER EXECUTIVES

William P. Schrader	<i>President</i>
John M. Williams, Jr	<i>Vice President</i>
Richard H. Silverman	<i>General Manager</i>
Terrill A. Lonon	<i>Corporate Secretary</i>
Steven J. Hulet	<i>Corporate Treasurer</i>
David G. Areghini	<i>Associate General Manager, Power, Construction & Engineering Services</i>
Mark B. Bonsall	<i>Associate General Manager, Commercial & Customer Services and Chief Financial Executive</i>
D. Michael Rappoport	<i>Associate General Manager, Public & Communications Services</i>
L. J. U'Ren	<i>Associate General Manager, Operations, Information & Human Resources Services</i>
Jane D. Alfano	<i>Corporate Counsel</i>
Richard M. Hayslip	<i>Manager, Environmental, Land and Risk Management</i>

CONSULTANTS

Legal Advisors	<i>Jennings, Strouss & Salmon, P.L.C.</i>
Independent Public Accountants	<i>PricewaterhouseCoopers LLP</i>
Consulting Engineers	<i>R. W. Beck, Inc.</i>
Bond Counsel	<i>McCarter & English, LLP</i>
Financial Consultant	<i>Lazard Frères & Co., LLC</i>

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy the 2002 Series B Bonds described herein in any jurisdiction to any person to whom it is unlawful to make such an offer. No dealer, broker, salesman or other person has been authorized by the Salt River Project Agricultural Improvement and Power District (the "District") or the Underwriters to give any information or to make any representations with respect to the 2002 Series B Bonds other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the District or the Underwriters.

The information set forth herein has been furnished by the District and other sources which are believed to be reliable. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or the Electric System since the date hereof.

THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

IN CONNECTION WITH THE OFFERING OF THE 2002 SERIES B BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2002 SERIES B BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME WITHOUT PRIOR NOTICE. THE UNDERWRITERS MAY OFFER AND SELL THE 2002 SERIES B BONDS TO CERTAIN DEALERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

This Official Statement contains forward-looking statements within the meaning of the federal securities laws. Such statements are based on currently available information, expectations, estimates, assumptions and projections, and management's judgment about the power utility industry and general economic conditions. Such words as expects, intends, plans, believes, estimates, anticipates or variations of such words or similar expressions are intended to identify forward-looking statements. The forward-looking statements are not guarantees of future performance. Actual results may vary materially from what is contained in a forward-looking statement. Factors which may cause a result different from those expected or anticipated include, among other things, new legislation, increases in suppliers' prices, particularly prices for fuel in connection with the operation of the Electric System, changes in environmental compliance requirements, acquisitions, changes in customer power use patterns, natural disasters and the impact of weather on operating results. The District assumes no obligation to provide public updates of forward-looking statements.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as they apply to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

SUMMARY STATEMENT

This Summary Statement is subject in all respects to the more complete information contained in this Official Statement and should not be considered a complete statement of the facts material to making an investment decision. The offering of the 2002 Series B Bonds to potential investors is made only by means of the entire Official Statement. Certain terms used herein are defined in this Official Statement.

District: The Salt River Project Agricultural Improvement and Power District (the "District") is an agricultural improvement district, organized under the laws of the State of Arizona, which provides electric service in a 2,900 square mile service territory in parts of Maricopa, Gila and Pinal Counties in Arizona, plus mine loads in an adjacent 2,400 square mile area in Gila and Pinal Counties.

The 2002 Series B Bonds: The 2002 Series B Bonds are being offered in the principal amount per maturity and bearing interest at the rates set forth on the inside cover page of this Official Statement. The 2002 Series B Bonds are authorized pursuant to the Constitution and laws of the State of Arizona and in particular Article 7, Chapter 17, Title 48, Arizona Revised Statutes (the "Act") and the Resolution Concerning Revenue Bonds, dated as of November 1, 1972, as supplemented and amended (the "Resolution").

Purpose of the 2002 Series B Bonds: The 2002 Series B Bonds are being issued as part of the District's Recapitalization Plan in response to changes in federal and state laws and actions by regulatory bodies. The proceeds of the 2002 Series B Bonds will be used to finance capital improvements to the Electric System necessary to provide electric power and energy to the District's service area pursuant to the Capital Improvement Program (as hereinafter defined). Proceeds of the Bonds may also be used to fund a deposit to the Debt Reserve Account and to pay costs of issuing the 2002 Series B Bonds. See "PLAN OF FINANCE," "THE RECAPITALIZATION PLAN," "SOURCES AND USES OF PROCEEDS" and "CAPITAL IMPROVEMENT PROGRAM" herein.

Security for the 2002 Series B Bonds: The 2002 Series B Bonds and all Revenue Bonds heretofore and hereafter issued will be payable from and secured by a pledge of lien on all Revenues derived by the District from the ownership and operation of the Electric System after the payment of Operating Expenses and payments required to be made under United States Government Loans heretofore and hereafter incurred by the District. Such pledge created by the Resolution is subject only to the provisions of the Resolution permitting the application of Revenues for the purposes and upon the terms and conditions set forth in the Resolution.

The District has covenanted in the Resolution not to issue any bonds or other obligations or create any additional indebtedness which will have priority over the charge and lien on the Revenues pledged to the Revenue Bonds except for United States Government Loans heretofore and hereafter incurred. The District currently has no United States Government Loans outstanding.

The District has covenanted in the Resolution to maintain the Debt Reserve Account at the Debt Reserve Requirement. In the past, the District, though not required to do so, has followed the practice of increasing the Debt Reserve Requirement at the time of the issuance of additional Revenue Bonds to approximately one-half the average annual Debt Service on all Outstanding Revenue Bonds. At April 30, 2002, the balance in the Debt Reserve Account was \$68,008,000. Upon issuance of the 2002 Series B Bonds, the Debt Reserve Requirement will be approximately one-half the average annual Debt Service on all outstanding Revenue Bonds. See "THE RECAPITALIZATION PLAN — Amended and Restated Bond Resolution" herein for a description of an amendment to the Resolution, which if approved by two-thirds of the holders of the then Outstanding Revenue Bonds, will reduce the Debt Reserve Requirement.

The District has covenanted in the Resolution that, among other things, it will at all times maintain rates, fees or charges sufficient for the payment of Operating Expenses of the District and to pay the Debt Service on all Revenue Bonds and Subordinated Obligations.

The 2002 Series B Bonds do not constitute general obligations of the District or obligations of the State of Arizona, and no holder of any of the 2002 Series B Bonds has the right to compel the exercise of the taxing

powers of the District to pay the 2002 Series B Bonds or the interest thereon. See "SECURITY FOR 2002 SERIES B BONDS" herein.

Outstanding Indebtedness: As of April 30, 2002, the District had approximately \$3,033,931,000 outstanding long-term debt, net of current portion, consisting of \$2,508,931,000 Revenue Bonds and general fund debt of \$525,000,000 consisting of promissory notes sold in the tax-exempt commercial paper market. The promissory notes are payable from the District's general funds and do not have a lien on Revenues of the Electric System.

The District has entered into certain long-term power purchase contracts that secure the debt service payments on certain bonds issued by another Arizona political subdivision. The principal amount of such bonds thus secured at June 30, 2002 was \$172.5 million.

Limitation on Additional Indebtedness: The District is authorized to issue parity Revenue Bonds upon compliance with the provisions of the Resolution. See "Appendix C — Summary of the Resolution" attached hereto. The District may also issue at any time, or from time to time, evidences of indebtedness, which are payable out of Revenues and which may be secured by a pledge of Revenues, provided, however, that such pledge shall be, and shall be expressed to be, subordinate in all respects to the pledge of the Revenues created by the Resolution. See "THE RECAPITALIZATION PLAN — Amended and Restated Bond Resolution" herein for a description of an amendment to the Resolution which, if approved by two-thirds of the holders of the then Outstanding Revenue Bonds, will reduce the test for the issuance of additional Revenue Bonds.

Authority to Set Electric Prices: Under Arizona law, the District is authorized to set electric rates ("prices"). Although the Articles of Incorporation of the Association provide that the Secretary of the Interior may revise such prices, the Secretary of the Interior has never requested any such revision. See "ELECTRIC PRICES" herein.

Service Area: The District's service area includes the major populated sections of Maricopa County, as well as portions of Pinal and Gila Counties. The District serves approximately 53% of the population living in the Phoenix-Mesa Metropolitan Statistical Area (the "Phoenix-Mesa MSA") and had an historic peak load of approximately 5,296 MW in July 2002. Nearly 50% of annual retail electric revenues are received from residential customers.

Transmission and Distribution Facilities: The District owns transmission and distribution systems in order to deliver electricity. These systems include both overhead and underground lines with voltage levels ranging from 12kV to 500kV. In addition, the District also has acquired rights on transmission systems owned by others. See "THE ELECTRIC SYSTEM — Existing and Future Resources" herein.

Power Supply Resources: The District's power supply resources are diversified and include generating facilities owned solely by the District, generating facilities in which the District has an ownership interest, and various power purchase contracts. See "THE ELECTRIC SYSTEM — Existing and Future Resources" herein.

Retail Competition: The District opened its entire service area to generation competition by electricity suppliers who had been approved by the Arizona Corporation Commission ("ACC") in June 2000 and opened the entire service area to competition in the areas of billing, collection, metering and meter reading on December 31, 2000. There has been no material adverse effect on the District as a result of such action. See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY — District's Response to Utility Industry Developments" herein.

Recapitalization Plan: As a result of changes in federal and state laws and actions by regulatory bodies, the District has undertaken a plan to improve the District's operating efficiency and financing flexibility (the "Recapitalization Plan") so that it is better positioned to remain competitive and to respond to future changes.

As part of the Recapitalization Plan, the District issued its \$580,570,000 Salt River Project Electric System Refunding Revenue Bonds, 2001 Series A and its \$432,560,000 Salt River Project Electric System Refunding Revenue Bonds, 2002 Series A, on December 14, 2001 and February 8, 2002, respectively, in order to refund certain of its outstanding Revenue Bonds. The District also defeased with cash \$408,045,000 of its

Outstanding Revenue Bonds on August 14, 2002. The Recapitalization Plan also includes the issuance of the 2002 Series B Bonds and may include the refunding of other Outstanding Revenue Bonds, the solicitation of tenders for outstanding Revenue Bonds, the redemption of outstanding Revenue Bonds prior to maturity and the issuance of additional Revenue Bonds. In addition, the District may (but is not obligated to) solicit Bondholder consents to the Amended and Restated Bond Resolution (as hereinafter defined) and may provide for the payment for such consents.

Amended and Restated Bond Resolution: As part of the Recapitalization Plan, the District has adopted a Supplemental Resolution Amending and Restating the Resolution Concerning Revenue Bonds (the "Amended and Restated Bond Resolution") that contains certain amendments to the Resolution, including amendments which reduce the Debt Reserve Requirement and the test for the issuance of additional Revenue Bonds. The purpose of the Amended and Restated Bond Resolution is to modernize the Resolution which was adopted in 1972 and does not reflect subsequent developments in the electric utility industry and financial markets. The amendments contained in the Amended and Restated Bond Resolution become effective if approved by two-thirds of the holders of the then Outstanding Revenue Bonds, and are intended to improve the District's operating efficiency and provide financing flexibility in order to better position the District to remain competitive in a changing electric utility industry.

Continuing Disclosure: The District has covenanted in the Resolution to provide certain financial information and operating data relating to the Electric System and to provide notices of certain occurrences of certain enumerated events, if material, pursuant to the Continuing Disclosure Agreement. See "CONTINUING DISCLOSURE" herein and "Appendix F — Form of Continuing Disclosure Agreement" attached hereto.

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**SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT, ARIZONA**

OFFICIAL STATEMENT

RELATING TO

\$570,000,000

**SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS,
2002 SERIES B**

INTRODUCTION

General

The purpose of this Official Statement, which includes the cover page and the Appendices hereto, is to furnish certain information with respect to the Salt River Project Agricultural Improvement and Power District (the "District") and its Salt River Project Electric System Revenue Bonds, 2002 Series B (the "2002 Series B Bonds") to be issued by the District. The mailing address of the District's administrative offices is The Office of the Secretary, PAB215, Post Office Box 52025, Phoenix, Arizona 85072-2025 (telephone number 602-236-5900).

The following material is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this Official Statement and the Appendices hereto. Capitalized terms not defined in this introduction have the meaning ascribed thereto herein.

Authorization

Revenue Bonds, which include the 2002 Series B Bonds, are authorized pursuant to the Constitution and laws of the State of Arizona and, in particular, Article 7, Chapter 17, Title 48, Arizona Revised Statutes (the "Act") and the Resolution Concerning Revenue Bonds, dated as of November 1, 1972, as supplemented and amended (the "Resolution"). Prior to the delivery of the 2002 Series B Bonds, the District's Board of Directors (the "Board") will have authorized the issuance of the 2002 Series B Bonds and the District's Council will have ratified and confirmed the District's action. See "THE 2002 SERIES B BONDS" herein and "Appendix C — Summary of the Resolution" attached hereto.

PLAN OF FINANCE

The District will issue the 2002 Series B Bonds to finance capital improvements to the Electric System necessary to provide electric power and energy to the District's service area pursuant to the Capital Improvement Program. Proceeds of the Bonds may also be used to fund a deposit to the Debt Reserve Account and to pay costs of issuing the 2002 Series B Bonds. The 2002 Series B Bonds will be issued under the Resolution. See "THE RECAPITALIZATION PLAN — Resolution" herein and "Appendix C — Summary of the Resolution" attached hereto. See also "SOURCES AND USES OF PROCEEDS" and "CAPITAL IMPROVEMENT PROGRAM" herein.

THE RECAPITALIZATION PLAN

General

As a result of changes in federal and state laws and actions by regulatory bodies, the District has undertaken a plan to improve the District's operating efficiency and financing flexibility (the "Recapitalization Plan") so that it is better positioned to remain competitive and to respond to future changes.

As part of the Recapitalization Plan, the District issued its \$580,570,000 Salt River Project Electric System Refunding Revenue Bonds, 2001 Series A and its \$432,560,000 Salt River Project Electric System Refunding Revenue Bonds, 2002 Series A, on December 14, 2001 and February 8, 2002, respectively, in order to refund certain of its outstanding Revenue Bonds. The District also defeased with cash \$408,045,000 of its Outstanding Revenue Bonds on August 14, 2002. The Recapitalization Plan also includes the issuance of the 2002 Series B Bonds and may include the refunding of other outstanding Revenue Bonds, the solicitation of tenders for outstanding Revenue Bonds, the redemption of outstanding Revenue Bonds prior to maturity and the issuance of additional Revenue Bonds. In addition, the District may (but is not obligated to) solicit Bondholder consents to the Amended and Restated Bond Resolution (as hereinafter defined) and may provide for the payment for such consents. The District will use a portion of the proceeds of the 2002 Series B Bonds to finance capital improvements to the Electric System necessary to provide electric power and energy to the District's service area. See "PLAN OF FINANCE" herein.

The District intends to use the proceeds of additional Revenue Bonds to be issued or available cash on hand to fund the cost of the refunding and redemption of, and/or purchase through the execution of an open market tender offer for, certain of the District's outstanding Revenue Bonds. No assurance can be given as to which Revenue Bonds may be refunded and redeemed prior to maturity or which Revenue Bonds may be solicited for tender in connection with the Recapitalization Plan. Neither the timing of the Recapitalization Plan nor the principal amounts of the transactions is known at this time.

The goals of the Recapitalization Plan are: (i) to accelerate debt retirement by the District of its Revenue Bonds; (ii) to provide the District with increased financing and operating flexibility in the future; (iii) to issue new Revenue Bonds for distribution expenses; (iv) to adopt a modern and more flexible bond resolution; and (v) to recognize Debt Service savings. If the District issues additional Revenue Bonds to finance distribution facilities, such issuance would enable the District to allocate Revenues, which would have otherwise been used to pay for the costs of distribution facilities, to the payment of Debt Service. In approximately seven years, the outstanding principal amount of Revenue Bonds, as a result of the Recapitalization Plan, will be approximately the same as it would have been without the Recapitalization Plan.

Resolution

The Resolution provides for certain terms and conditions, which apply to all series of Revenue Bonds. Each series of Revenue Bonds is to be issued pursuant to the Resolution as supplemented by a Series Resolution. The Resolution provides, among other things, the conditions that must be satisfied for the issuance of Revenue Bonds, the covenants of the District with respect to the Revenue Bonds, and the terms under which the Resolution may be amended, including amendments which require the consent of the owners of the Revenue Bonds. See "Appendix C — Summary of the Resolution" attached hereto.

Amended and Restated Bond Resolution

As part of the Recapitalization Plan, the District has adopted a Supplemental Resolution Amending and Restating the Resolution Concerning Revenue Bonds (the "Amended and Restated Bond Resolution"), which contains certain amendments to the Resolution. The purpose of the Amended and Restated Bond Resolution is to modernize the Resolution which was adopted in 1972 and does not reflect subsequent developments in the electric utility industry and financial markets. The amendments contained in the Amended and Restated Bond Resolution are intended to improve the District's operating efficiency and provide financing flexibility in order to better position the District to remain competitive in a changing electric utility industry.

The Amended and Restated Bond Resolution amends the Resolution by, among other things,

- Expanding the definition of Investment Securities to include any securities permitted by law;
- Expanding the definition of Operating Expense to include "take or pay contracts" pursuant to which power is actually delivered to the District;
- Reducing the test for the issuance of additional Revenue Bonds to 1.10 times Debt Service coverage;

- Reducing the Debt Reserve Requirement to an amount equal to one-half of the average annual interest cost for all Outstanding Revenue Bonds, which may be satisfied by the deposit of cash or securities in the Debt Reserve Account or by the deposit of a Debt Reserve Account Credit Facility in the Debt Reserve Account in lieu of or in partial substitution for cash or securities on deposit therein. For the purposes of determining the average annual interest cost for any Outstanding Revenue Bonds that bear interest at a variable rate, the District shall assume the same average interest cost applicable to such Outstanding Revenue Bonds for the previous fiscal year. For the purposes of determining the average annual interest cost for any Outstanding Revenue Bonds that do not bear current interest, the District will use the annual accreted value of such Outstanding Revenue Bonds;
- Clarifying the provision for the issuance of refunding bonds and the provision for a conditional notice of redemption;
- Providing for indebtedness for Separately Financed Projects; and
- Providing for the issuance of variable rate debt and for principal and interest payment dates other than January 1 and July 1.

FOR A COMPLETE DESCRIPTION OF THE AMENDMENTS TO THE RESOLUTION INCORPORATED IN THE AMENDED AND RESTATED BOND RESOLUTION SEE "APPENDIX D — FORM OF AMENDED AND RESTATED BOND RESOLUTION" ATTACHED HERETO.

The Amended and Restated Bond Resolution will become effective only upon the District obtaining the written consent of the holders of two-thirds in principal amount of the Revenue Bonds then outstanding under the Resolution. As a result of the Underwriters' consent to the adoption of the Amended and Restated Bond Resolution through their purchase of the 2002 Series B Bonds, the holders from time to time of the 2002 Series B Bonds will be deemed to have consented to the adoption of the Amended and Restated Bond Resolution. The District also intends to obtain the consent to the Amended and Restated Bond Resolution of the holders of any additional Revenue Bonds issued in the future whether issued for construction, refunding, financing of tenders or other purposes. Such consents may be obtained through the underwriters of such Revenue Bonds or through the consents of the subsequent purchasers. In addition, the District may solicit the consent of the current holders of outstanding Revenue Bonds under the Resolution in accordance with the terms of the Resolution and may agree to pay the holders of such Revenue Bonds for their consents. Before the issuance of the 2002 Series B Bonds, there will be outstanding \$2,205,492,224 of Revenue Bonds of which \$1,013,130,000 will have consented to the Amended and Restated Bond Resolution.

Upon becoming effective, all of the provisions of the Amended and Restated Bond Resolution will be binding and controlling with respect to all Outstanding Revenue Bonds, including the 2002 Series B Bonds. The Resolution also contains provisions which permit the rescission of a previously given consent to an amendment under certain circumstances. See "Appendix C — Summary of the Resolution" attached hereto. No assurance can be given, even if the requisite number of written consents are obtained, that some or all will not be rescinded before the Amended and Restated Bond Resolution becomes effective. Until such time as the Amended and Restated Bond Resolution is in effect, the District will continue to comply with the provisions of the Resolution.

THE 2002 SERIES B BONDS

General

The 2002 Series B Bonds will be issued in the principal amount of \$570,000,000 and will be dated and bear interest from the date of delivery. The 2002 Series B Bonds will mature on the dates and in the principal amounts, and bear interest, payable on January 1 and July 1 of each year, commencing July 1, 2003, at the respective rates shown on the inside cover page of this Official Statement. The principal and redemption price, if any, of and interest on the 2002 Series B Bonds are payable by The Bank of New York, New York, New York (the "Trustee"), and interest thereon will be payable by check mailed by the Trustee to the registered owner of each 2002 Series B Bond as of the immediately preceding December 15 or June 15.

Book-Entry Only System

The 2002 Series B Bonds will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2002 Series B Bonds. Individual purchases of interests in the 2002 Series B Bonds will be made in book-entry form only, in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of such interests will not receive certificates representing their interests in the 2002 Series B Bonds. So long as Cede & Co. is the registered owner of the 2002 Series B Bonds, the Trustee will make payments of principal and redemption price, if any, of and interest on the 2002 Series B Bonds directly to DTC, which will remit such principal, redemption price, if any, of and interest to the Beneficial Owners (as hereinafter defined in "Appendix F — Form of Continuing Disclosure Agreement") of the 2002 Series B Bonds, as described herein. See "Appendix G — Book-Entry Only System" attached hereto.

Redemption

Optional Redemption. The 2002 Series B Bonds maturing on and after January 1, 2014 are subject to redemption prior to their stated maturity, at the election of the District, in whole or in part, by random selection within a maturity with the same coupon by the Trustee from maturities selected by the District, at any time on or after January 1, 2013 at the redemption price of 100% of the principal amount of the 2002 Series B Bonds, or portion thereof to be redeemed, together with accrued interest to, but not including the redemption date.

Mandatory Sinking Fund Redemption. The 2002 Series B Bonds maturing on January 1, 2031 are subject to mandatory redemption prior to maturity, upon random selection within a maturity by the Trustee, by operation of the Debt Service Fund to satisfy the Sinking Fund Installments required by the Series Resolution, on and after January 1, 2027 at 100% of the principal amount of the 2002 Series B Bonds to be redeemed together with accrued interest up to, but not including the redemption date. Such Sinking Fund Installments will be sufficient to redeem the 2002 Series B Bonds on the dates set forth below:

<u>Sinking Fund Payment Date (January 1)</u>	<u>Principal Amount</u>
2027	\$13,220,000
2028	20,515,000
2029	39,380,000
2030	78,380,000
2031 (final maturity)	71,490,000

The District may satisfy the Sinking Fund Installments by delivering to the Trustee 2002 Series B Bonds of such maturities theretofore purchased or redeemed by the District otherwise than by sinking fund redemptions.

Notice of Redemption. Notice of redemption will be given to the Bondholders by mail to the registered owners as of the date of the notice of the 2002 Series B Bonds to be redeemed, postage prepaid, not less than 25 days nor more than 50 days prior to the redemption date.

Registration and Transfer Upon Discontinuation of Book-Entry Only System

The Bank of New York will act as bond registrar ("Bond Registrar"), transfer and paying agent for the 2002 Series B Bonds. If the book-entry only system were discontinued, the following provisions would apply. A 2002 Series B Bond may be transferred on the bond register maintained by the Bond Registrar upon surrender of the 2002 Series B Bond at the principal corporate trust office of the Bond Registrar, accompanied by a written instrument of transfer, in form satisfactory to the Bond Registrar, signed by the registered owner or a duly authorized attorney for the registered owner. Upon surrender for transfer at the principal corporate trust office of the Bond Registrar, any 2002 Series B Bond may be exchanged for 2002 Series B Bonds of the same aggregate principal amount, maturity date and interest rate, of any authorized denomination. The Bond Registrar will not be obligated to transfer or exchange any 2002 Series B Bonds during the 15 days preceding the date on which notice of redemption of a 2002 Series B Bond is to be mailed or any 2002 Series B Bond that has been called for redemption except the unredeemed portion of any 2002 Series B Bond being redeemed in part.

SOURCES AND USES OF PROCEEDS AND OTHER AMOUNTS

The sources and uses of funds with respect to the 2002 Series B Bonds, which will be deposited in the Debt Service Account, are as follows:

Sources of Funds

Principal Amount of 2002 Series B Bonds.....	\$570,000,000.00
Net Original Issue Premium	<u>6,855,654.20</u>
Total Sources of Funds	<u><u>\$576,855,654.20</u></u>

Uses of Funds

Construction Fund	\$566,938,025.65
Debt Reserve Fund.....	6,247,000.00
Cost of Issuance (including Underwriters' Discount)	<u>3,670,628.55</u>
Total Uses of Funds	<u><u>\$576,855,654.20</u></u>

SECURITY FOR 2002 SERIES B BONDS

General

The District proposes to amend certain provisions of the Resolution pursuant to the Amended and Restated Bond Resolution. Upon receipt of the requisite number of consents of Bondholders the provisions of the Amended and Restated Bond Resolution will become effective and will govern all Outstanding Revenue Bonds, including the 2002 Series B Bonds. For a description of these amendments, some of which affect the security for the Revenue Bonds, see "THE RECAPITALIZATION PLAN — Amended and Restated Bond Resolution" herein and "Appendix D — Form of Amended and Restated Bond Resolution" attached hereto.

The Revenue Bonds, including the 2002 Series B Bonds, are payable from and secured by a pledge of and lien on Revenues. Revenues are defined in the Resolution as (i) all revenues, income, rents and receipts derived by the District from the ownership and operation of the Electric System and the proceeds of any insurance covering business interruption loss relating to the Electric System and (ii) interest received on any moneys or securities (other than in the Construction Fund) held pursuant to the Resolution and paid into the Revenue Fund.

In addition, the Revenue Bonds, including the 2002 Series B Bonds, are also secured by all funds held under the Resolution. Such pledge created by the Resolution is subject only to the provisions of the Resolution permitting the application of Revenues for the purposes and upon the terms and conditions set forth in the Resolution.

The 2002 Series B Bonds will not constitute general obligations of the District or obligations of the State of Arizona, and no holder of Revenue Bonds will ever have the right to compel any exercise of the taxing powers of the District to pay the Revenue Bonds or the interest thereon.

Debt Reserve Account

The Debt Reserve Account is a reserve fund for the equal benefit of all Revenue Bonds Outstanding under the Resolution. Moneys in the Debt Reserve Account (except any excess over the Debt Reserve Requirement that the District may allocate and apply in the same manner as Revenues) will be used solely for the purpose of curing any deficiency in the Debt Service Fund for the payment of principal, interest or sinking fund payments pursuant to the Resolution. See "THE RECAPITALIZATION PLAN — Amended and Restated Bond Resolution" herein for a description of an amendment to the Resolution which, if approved by two-thirds of the holders of the then Outstanding Revenue Bonds, will reduce the Debt Reserve Requirement.

In the past, the District, though not required to do so, has followed the practice of increasing the Debt Reserve Requirement at the time of issuance of additional Revenue Bonds to equal approximately one-half the average annual Debt Service on all outstanding Revenue Bonds. At April 30, 2002 the balance in the Debt Reserve Account was \$68,008,000. Upon the issuance of the 2002 Series B Bonds, the Debt Reserve Requirement will be approximately one-half the average annual Debt Service on all outstanding Revenue Bonds.

Rate Covenant

The District covenants in the Resolution that it will charge and collect rates, fees and other charges for the sale of electric power and energy and other services, facilities and commodities of the Electric System as shall be required to provide revenues and income (including investment income) at least sufficient in each fiscal year for the payment of the sum of (i) Operating Expenses during such fiscal year, including reserves, if any, provided therefor in the Annual Budget for such year; (ii) an amount equal to the Aggregate Debt Service for such fiscal year; (iii) the amount, if any, to be paid during such fiscal year into the Debt Reserve Account in the Debt Service Fund; and (iv) all other charges or liens whatsoever payable out of revenues and

income during such fiscal year and, to the extent not otherwise provided for, all amounts payable on Subordinated Obligations. See "ELECTRIC PRICES" herein.

Limitations on Additional Indebtedness

The District has covenanted in the Resolution not to issue any bonds or other obligations or create any additional indebtedness, which would have priority over the charge and lien on the Revenues pledged to the Revenue Bonds except for U.S. Government Loans heretofore or hereafter incurred. The Resolution does not restrict the amount of U.S. Government Loans the District may incur, which would have a prior lien on Revenues. There are no outstanding U.S. Government Loans.

The District may issue additional parity Revenue Bonds in compliance with the Resolution if, among other things, (i) Revenues Available for Debt Service, as the same may be adjusted, of any 12 consecutive calendar months out of the 24 calendar months next preceding the issuance of such additional Revenue Bonds are not less than 1.20 times the maximum total Debt Service for any succeeding fiscal year on all Revenue Bonds that will be outstanding immediately prior to the issuance of the additional Revenue Bonds, and (ii) estimated Revenues Available for Debt Service, as the same may be adjusted, for each of the five fiscal years immediately following the issuance of such additional Revenue Bonds are not less than 1.35 times the total Debt Service for each such respective fiscal year on all Revenue Bonds outstanding immediately subsequent to the issuance of such additional Revenue Bonds. See **"THE RECAPITALIZATION PLAN — Amended and Restated Bond Resolution"** herein for a description of an amendment to the Resolution which, if approved by two-thirds of the holders of the then Outstanding Revenue Bonds, will reduce the test for the issuance of additional Revenue Bonds. Also see **"Table 7 — Summary of Operating Results"** in **"Appendix B — Consulting Engineers Report"** for additional information concerning the calculation of the District's debt service coverage tests.

Subordinated Obligations

The District may, at any time, or from time to time, issue evidences of indebtedness which are payable out of Revenues and which may be secured by a pledge of Revenues provided, however, that such pledge shall be and shall be expressed to be, subordinate in all respects to the pledge of the Revenues, moneys, securities and funds created by the Resolution. See **"Appendix C — Summary of the Resolution"** attached hereto.

Other Covenants

In addition to the rate covenant described above, the Resolution includes covenants by the District with respect to the sale and/or lease of the Electric System, the operation and maintenance of the Electric System, and certain other matters. See **"Appendix C — Summary of the Resolution"** attached hereto.

THE DISTRICT

General

The District is an agricultural improvement district organized in 1937 under the laws of the State of Arizona. It operates the Salt River Project (the "Project"), a federal reclamation project, under contracts with the Salt River Valley Water Users' Association (the "Association") by which it has assumed the obligations of the Association to the United States of America for the care, operation and maintenance of the Project. The District owns and operates an electric system (hereinafter described) which generates, purchases and distributes electric power and energy, and provides electric service to residential, commercial, industrial and agricultural power users in a 2,900 square mile service territory in parts of Maricopa, Gila and Pinal Counties, plus mine loads in an adjacent 2,400 square mile area in Gila and Pinal Counties. The Association operates an irrigation system as the agent of the District.

History

The Association, predecessor of the District, was incorporated under the laws of the Territory of Arizona in February 1903 to represent the owners and occupants of lands to be benefited by the Project, which was one of the first projects authorized under the Federal Reclamation Act of 1902. In 1904, the Association and the United States entered into a contract in which the United States agreed to construct and operate dams, power plants and other facilities incident to the operation of irrigation and power works and improvements, and the Association agreed to repay the cost thereof. Initially, the United States constructed, operated and maintained Roosevelt Dam and Granite Reef Dam, which diverted impounded water into a canal system to supply irrigation water to the irrigable lands within the Project. In 1917, the Association entered into a contract with the United States to assume the care, operation and maintenance of the Project (the "1917 Agreement").

On January 25, 1937, the District was formed to secure for the Project the rights, privileges and exemptions granted to political subdivisions of the State of Arizona. Pursuant to a contract approved by the Secretary of Interior in 1937 (the "1937 Agreement"), the Association transferred all of its right, title and interest in and to the works and facilities of the Project to the District. The District agreed to assume the debt of the Association and to issue District bonds to finance capital improvements. The Association agreed to continue to operate and maintain the water supply and irrigation system and the Electric System. In 1949, the 1937 Agreement was amended to provide that the District would assume responsibility for the construction, operation and maintenance of the Electric System and the irrigation and water supply system. The District delegated to the Association, as agent of the District, the direct operation and maintenance of the irrigation system of the Project.

The United States retains a paramount right or claim in the Project that arises from the original construction and operation of certain of the Project's electric and water facilities as a federal reclamation project. Although title to a substantial portion of the District's property, including those properties acquired pursuant to the 1917 Agreement, resides in the United States, the District possesses contractual rights to the use, possession and revenues of these properties through its agreement with the Association, the 1917 Agreement, subsequent contractual arrangements with the United States, and applicable federal reclamation law.

Generation and sale of electrical power and energy represent the major portion of the District's investment and revenues. Following a long-standing reclamation principle, a portion of electric revenues available after the payment of Operating Expenses and Debt Service required under the Resolution is used to provide partial support for water and irrigation operations, thereby keeping water storage, distribution and delivery charges at reasonable levels.

Organization, Management and Employees

The District and the Association are each governed by a Board and a Council. The Boards establish the policies for management and conduct of the business affairs of the District and the Association. The Councils

enact and amend by-laws relating to management and act as a liaison with the landowners. The General Manager of the District has management responsibilities for both the District and the Association.

The Board of Governors of the Association, elected from among the shareholders (landowners), consists of the President, Vice President and ten members, half being elected biennially for four-year terms. The Board of Directors of the District, elected from among the electors (landowners) for four-year terms, consists of the President and Vice President and fourteen members, half being elected biennially for four-year terms. The President and Vice President are elected at large by electors of the District. Ten of the District's Board members, the President, and the Vice President are elected by votes weighted in proportion to the amount of land owned by each elector. The remaining four Board members are elected at large, with each elector (landowner) being entitled to one vote.

The Councils for both the Association and the District each consist of thirty members. Three Council members from each of the ten district areas of the Association, and three Council members from each of the ten division areas of the District, are elected biennially for four-year terms. One half of each of the Association and the District Councils are elected biennially. All Council members are elected by votes weighted in proportion to the amount of land owned by each shareholder (Association) or elector (District).

As of June 2002, District and Association full-time, regular employees totaled approximately 4,378, including approximately 2,001 hourly employees represented by the International Brotherhood of Electrical Workers, Local 266. The present labor contracts expire on November 15, 2002. The District expects to commence negotiations in September 2002.

Economic and Customer Growth in the District's Service Area

The District serves approximately 53% of the population living in the Phoenix-Mesa MSA. As the governmental and economic center of Arizona, the Phoenix-Mesa MSA continues to attract the largest percentage of the state's residents, businesses, and income. It contains approximately 63% of the state's population, and over two-thirds of its total employment and total personal income.

The Phoenix-Mesa MSA has experienced strong economic growth since the recession of the early 1990's. The 2000 Census revealed that growth was higher than previously estimated. From 1990 to 2000, population in Maricopa County increased by 950,000, a 45% increase. This growth has been fueled by positive net migration due to the area's healthy growth in jobs. While there has been some slowing recently, the Phoenix area continues to benefit from strong population growth. Although the metro area has experienced declines in total employment since September 2001, looking forward, the District expects the Phoenix-Mesa MSA to emerge from the current recession in 2002 with local employment growth recovering thereafter. Average population growth should decline to 2.6% annually from the 3.5% seen in recent years.

Table 1 summarizes several key economic statistics over recent years.

TABLE 1 — Historical Growth Statistics

**Phx-Mesa MSA
Non-Agricultural**

<u>Year</u>	<u>State of Arizona Population (thousands) (3)</u>	<u>Phx-Mesa MSA Population (thousands) (3)</u>	<u>Wage & Salary Employment (thousands) (1)</u>	<u>Phx-Mesa MSA Residential Permits(2)</u>	<u>Phx-Mesa MSA Personal Income (\$ billions) (2)</u>
1995	4,307	2,668	1,225	37,536	59.8
1996	4,462	2,778	1,312	39,646	65.0
1997	4,600	2,871	1,383	43,224	71.1
1998	4,764	2,964	1,458	47,802	77.6
1999	4,924	3,079	1,525	47,713	83.2
2000	5,131	3,252	1,582	45,310	90.3
2001	5,320	3,379	1,595	43,073	NA

- (1) State of Arizona, Department of Economic Security.
- (2) University of Arizona, "Economic Outlook" and data banks.
- (3) State of Arizona, Department of Economic Security and Maricopa County Association of Governments, as of July 1 of each year, except for 1995 and 2000, which are April Census numbers. Population numbers for 1996-1999 and 2001 are estimated.

As shown above, from 1995 through 2001, 370,000 new jobs were created in the Phoenix-Mesa MSA, an increase of 30%, or 4.5% per year. Employment growth has been healthy as evidenced by the employment sectors below:

Phoenix-Mesa MSA Employment

<u>Year</u>	<u>Construction</u>	<u>Manufacturing</u>	<u>Trade</u>	<u>Services</u>
1995	84,800	148,400	305,500	366,000
1996	90,200	154,400	325,600	403,100
1997	95,100	161,500	338,700	431,900
1998	105,400	169,500	353,500	453,300
1999	113,700	164,600	363,100	492,600
2000	118,400	165,700	375,500	514,400
2001	121,200	159,000	381,700	515,900

Source: State of Arizona, Department of Economic Security.

For 2001, the manufacturing sector accounted for 10% of total wage and salary employment and construction accounted for 7.5%. The largest sectors were services at 32% and trade at 24%. Government's share was 13%. Finance, insurance and real estate, transportation, communications, public utilities, and mines make up the other 13.5%.

Employment growth in the area has historically compared favorably to national figures. From 1995 through 2000 employment increased an estimated 30% for the Phoenix-Mesa MSA and 26% for the state, while the national figure was 13%. Unemployment rates for the Phoenix-Mesa MSA are typically below the

national average. Seasonally adjusted unemployment rates for the Phoenix-Mesa MSA, Arizona, and the United States are listed below:

Comparative Unemployment Rates

	<u>June 2002</u>	<u>June 2001</u>
Phoenix-Mesa MSA	5.4%	3.7%
Arizona	6.0%	4.6%
United States	5.9%	4.6%

Source: State of Arizona Department of Economic Security.

Retail space vacancy rates have declined over the last ten years from 16.3% for 1990 to 5.3% for 2000. Vacancy rates rose to approximately 7% in 2001 due to mergers in the grocery industry and closures of some big-box retailers. The District anticipates that vacancy rates will continue to rise, peaking at approximately 9% within a year. Office vacancy rates dropped below 11% in 2000 from highs in the mid-twenty percent range in the early 1990s. The slowing economy raised office vacancy rates to approximately 20% in 2001. Rates are expected to rise by an additional one or two points in the coming year as new construction exceeds demand. In contrast to the relatively weak commercial sector, 2001 was a record year for residential housing permits. Construction activity is expected to decline but still remain healthy over the next several years as population growth (residential construction permits remain strong), along with related commercial businesses continues. Two sports stadiums (NFL and NHL) are in planning stages and highway construction continues.

The tourism industry was hit hard following the attacks of September 11, 2001, but the sector has recovered somewhat in recent months with hotel vacancy rates decreasing and airline load factors increasing. The local high-tech manufacturing industry was in recession even before the terrorist attacks. Although recent news on semiconductor shipments indicates that this sector may finally be reaching its cyclical bottom, full recovery is still months away. Despite weakness in the local economy, population growth continues. As the nation emerges from the current recession, the local economy should follow, resuming employment and income growth.

The Phoenix-Mesa MSA is home to several corporate headquarters: America West Holding Corporation (America West Airlines), ASARCO, AVNET, Best Western International, The Dial Corporation, Phelps Dodge, U-Haul, and Viad. In addition, American Express Company, The Prudential Insurance Company of America, State Farm Mutual, Sentry Insurance Co. and Southwest Airlines have regional offices in the Phoenix-Mesa MSA.

The District's customer growth and energy sales are driven by population growth, regional economic health and weather. As the local economy slows, immigration and new business creation will also slow. However, a diversified customer base helps shield the District from slowing in a particular sector. For the six-year planning horizon, customer growth is forecasted to slow to 3.2% annually from the 3.6% experienced over the last several years. This equates to a growth rate of approximately 27,000 customers annually, with most of the growth occurring in the residential and commercial classes.

See "SELECTED OPERATIONAL AND FINANCIAL DATA — Customers, Sales, Revenues and Expenses" herein.

Irrigation and Water Supply System

A historic and continuing justification of the Project lies in providing a stable and economic water supply. Agriculture in the plains and valleys of south-central Arizona almost wholly depends upon irrigation due to the low annual rainfall.

The major portion of the revenue of the District's Electric System is derived from within the boundary of the water service area of the Project. The Project provides the water supply for an area of approximately

248,200 acres located within the major portions of the Cities of Phoenix, Avondale, Glendale, Mesa, Tempe, Chandler, Gilbert, Peoria, Scottsdale and Tolleson.

The surface water supply for the water service area of the Project is runoff from a 13,000 square mile watershed and is stored in six reservoirs operated by the Association, four of which are located on the Salt River and two on the Verde River. Additional water is provided by the Association's deep-well pumps located within the boundaries of the Project's water service area.

The available water supply is important due to its influence on the economy in the area. Since the construction of the dam and reservoir system, the Project has always had a water supply sufficient to meet the demands for urban, industrial and agricultural uses within its boundaries. Although the last four years have seen below average water run-off into the Project's reservoirs, because of good water resource planning and management by the District and cities in the Phoenix metropolitan area, the District's management believes that there will be a sufficient water supply for the near term. In the long-term, under established water rights relating to water use and assuming a continuation of historical precipitation and usage patterns, the area within the Project water service boundaries has a dependable and assured water supply.

Water from underground sources is important in Arizona, and in periods of lower runoff on the watershed more groundwater must be pumped to meet demand. Due to well location, timing of demands, groundwater contamination, and pump maintenance requirements, delivery capability is limited to 325,000 to 400,000 acre-feet per year. Over the past 15 years, annual pumping has ranged from 44,500 acre-feet to 318,100 acre-feet. The Association has a contingency plan to manage demand in periods of water shortage.

The Association operates 250 wells under a federal permit issued by the U.S. Environmental Protection Agency ("EPA") pursuant to the permit program for the National Pollutant Discharge Elimination System. The permit restricts the use of wells having organic chemical contamination above the permit levels. The number of restricted wells may vary by two or three each year as the contamination plume moves away or new contamination is discovered. Currently, approximately 5% of the wells are not in operation for various reasons, including permit restrictions, and voluntary agreements to facilitate the study and remediation of contaminated groundwater in the area.

See "THE ELECTRIC SYSTEM — Existing and Future Resources — Jointly Owned Generation Facilities — Palo Verde Nuclear Generating Station," and "LITIGATION — Water Rights" for a discussion of additional matters relating to irrigation and water supply.

Telecommunication Facilities

The District has installed approximately 20,000 strand-miles of fiber cable to support communication activities for its water and electric utility operations. Approximately two-thirds of the available capacity in this system is surplus to its needs. The District has entered into an arrangement with Electric Lightwave, Inc. ("ELI") to market this excess capacity and has received approximately \$4 million per year in revenue from this activity. The District and ELI are currently discussing whether to continue their business relationship.

Because the District has an extensive electrical distribution system, it has numerous locations that are of interest to wireless telecommunication providers for transmitter sites. The District has been actively pursuing this as a business opportunity and now has approximately 100 sites where transmitters or other telecommunication equipment have been located. These sites generate approximately \$4 to \$5 million per year in revenue.

Papago Park Center

Papago Park Center is a mixed-use commercial development located on land owned by the District adjacent to its administrative offices. The District accumulated this land over a number of years for use by the District. The District has constructed a 360,000 square foot facility in Papago Park Center, which is utilized principally by personnel and equipment in the information systems, planning, marketing and financial services departments of the District. The 2003 through 2008 Capital Improvement Program does not include funds for additional office buildings. The District has a long-range plan, which includes the private development of portions of Papago Park Center (the "Private Development Area").

The District has entered into a 100-year lease of a portion of the Private Development Area with Papago Park Center, Inc. ("PPCI"), a wholly-owned, incorporated, and taxable subsidiary of the District. Payments

under the lease are related to the development and performance of the Private Development Area. Private development activity in the Private Development Area has steadily increased since 1996. Lease payments to the District were \$1.5 million and \$1.6 million in fiscal years 2002 and 2001, respectively.

New West Energy Corporation

In 1997, the District established a wholly-owned, taxable subsidiary, New West Energy Corporation ("New West Energy"), to market, at retail, energy available to the District that was surplus to the needs of its retail customers, and energy that might have been rendered surplus by retail competition in Arizona in the supply of generation. However, as a result of the turmoil in the California energy market, New West Energy has discontinued marketing excess energy, although it may resume this activity at some modest level in the future. It continues to provide energy-related services to various customers within and outside of the State of Arizona. One of the original purposes for forming New West Energy was to gain experience in a competitive market so that the District would be better prepared for competition in Arizona. New West Energy has achieved that goal. New West Energy has reduced its staff and now is supporting the District's energy services activities in Arizona.

New West Energy is subject to the same laws and regulations as similarly situated entities. Changes in laws and regulations related to implementation of retail competition in Arizona are referred to in "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY — Competition in Arizona" herein. The District's Board has authorized \$15 million in capital contributions to New West Energy, all of which has been funded. The financial statements of New West Energy and the District are consolidated. The District is authorized to issue guarantees on behalf of New West Energy in connection with certain sales up to an aggregate amount of \$70 million. No guarantees are in place as of this date. See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY — California Energy Crisis" and "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY — District's Response to Utility Industry Developments — Energy Risk Management Program" herein.

THE ELECTRIC SYSTEM

Area Served

The District provides electrical service to major populated sections of Maricopa County, as well as portions of Pinal and Gila Counties. Except the City of Mesa, all of the cities within the District's service areas are served in part by the District and in part by Arizona Public Service Company ("APS"). By agreement between the District and APS, the urban areas and the adjacent suburban areas now served by the District's distribution system will continue to be so served even though the latter may be annexed to a city in the future. The District also provides power directly for mining load requirements, principally in Pinal and Gila Counties.

See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY — Competition in Arizona" herein for a discussion of legislation permitting competition in generation service, billing, metering, and meter reading.

Projected Peak Loads and Resources

The District annually estimates its future sales of energy by taking into account customer growth, changes in customer usage patterns and historic, as well as projected, weather data. The resource portfolio is examined to determine the expected sources of power and energy that may be used to supply the estimated system requirements.

The projections in Table 2 represent the District's estimate of peak loads and resources for fiscal years 2003 through 2008. The projections reflected therein are consistent with industry-wide experience and provide the basis for the District's current year operating budget. However, they are based on certain assumptions that, if not realized, may adversely affect such projections.

The projections shown in Table 2 do not reflect any sales of excess capacity other than sales pursuant to existing agreements. The resources in excess of peak load are expected to be generally gas- and oil-fired resources, which are the District's most expensive resources to operate.

TABLE 2 — Projected Peak Loads and Resources (MW)

	Fiscal Year Ending April 30,					
	2003	2004	2005	2006	2007	2008
Annual Peak:(MW) (1) (2)						
Service Territory System Requirements(3) (4) (5)	5,300	5,500	5,720	5,940	6,170	6,400
Sales for Resale	<u>390</u>	<u>395</u>	<u>402</u>	<u>409</u>	<u>417</u>	<u>45</u>
Total Peak Load(6)	5,690	5,895	6,122	6,349	6,587	6,445
Resources:						
Hydroelectric(7)	263	263	263	263	263	263
Thermal						
Oil and/or Gas	1,515	1,515	1,515	2,065	2,065	2,340
Coal(8)	2,081	2,081	2,081	2,081	2,101	2,101
Nuclear	644	640	654	651	652	650
Solar and Renewables	7	7	7	7	7	7
Purchased:						
Federal Hydro Power(9)	234	234	234	234	234	234
Central Arizona Water Conservation District/ Navajo Surplus	726	725	725	725	725	725
AEPCO — Arizona Electric Power Cooperative	100	100	100	100	100	100
TEP — Tucson Electric Power Company	100	100	100	100	100	100
Reliant Desert Basin	575	575	575	575	575	575
Other Existing	345	125	100	0	0	0
Other New	<u>0</u>	<u>200</u>	<u>450</u>	<u>300</u>	<u>550</u>	<u>100</u>
Total Resources	6,590	6,565	6,804	7,101	7,372	7,195
Total Resources in Excess of Total Peak Load ..	900	670	682	752	785	750
Planned Reserve Percentage(5) (10)	18.3%	12.6%	12.2%	12.7%	12.8%	12.4%

- (1) The forecasts were made in the fall of 2001, which was the beginning of the annual planning period.
- (2) The peak normally occurs in the June through September months (the beginning months of the fiscal year).
- (3) The non-discriminatory access language in the Electric Power Competition Act requires the District to be able to meet all distribution area loads under 100,000 kWh, even if some retail customers elect to be served by others. No District retail customers are currently being served by others.
- (4) Peak demand has been reduced by the cumulative impact of conservation programs that the District has sponsored for more than a decade.
- (5) Interruptible loads are not included in Service Territory System Requirements or in the reserves calculation because these loads are not expected to be on line during the peak.
- (6) The peak load value is the total peak load occurring coincident with the District's system peak energy requirements.
- (7) The District expects its Roosevelt hydroelectric generating resource to be unavailable during fiscal year 2003 due to low water levels, resulting in a 36MW reduction in hydroelectric resources not shown in the table.
- (8) The forecast reflects continued operation of the Mohave Generating Station. In the event of a shut down of Mohave, the District expects to obtain replacement power from other available sources. See "THE ELECTRIC SYSTEM — Existing and Future Resources — Mohave Generating Station" for a discussion of Mohave Generating Station issues.

- (9) A portion of federal hydro resources comes from the Colorado River Storage Project (CRSP). The CRSP resource will be reallocated as of October 1, 2004, resulting in a 7% reduction to CRSP recipients. The reallocation is not reflected in this table. The impact of the change is an 8 MW reduction in federal hydro resources beginning in fiscal year 2005.
- (10) Cannot be derived solely from the information set forth in Table 2.

Reserve Targets

The District plans the addition of new generation based on a 12% reserve target. Because of the restructuring of the electric utility industry and the significant financial exposure associated with carrying excess reserves, the District has decided that a 12% reserve target represents an optimal planning target that balances both economics and reliability. For fiscal year 2003, the District increased the 12% target to address current concerns about the adequacy of transmission and regional supply. For fiscal years 2004 and thereafter, the District's resources available for reserves are expected to meet the planned reserve target.

Existing and Future Resources

The District has various resources available to it that permit it to provide electricity in its service area. The resources include the generating facilities owned solely by the District, generating facilities in which the District has an ownership interest, and the District's ability to enter into agreements with others to purchase power.

Economic Viability of Existing Generation Assets. The existing generation assets have been and will continue to be an integral part of the District's long-term resource plans. These generating stations historically have achieved high availability and low forced outage rates as compared to industry averages. This performance can largely be attributed to prudent operational and maintenance practices. Sustaining and improving this performance will be achieved by continuing a focused effort on preventative, predictive and corrective maintenance activities. By combining these practices with the ongoing application of engineering and technology improvements the District will ensure that the future economic and operational value of existing assets is maintained.

Summary of Existing Power Sources during the fiscal year ended April 30, 2002. The District's largest source of energy during the fiscal year ended April 30, 2002 was thermal generating facilities, which supplied 58.7% of the District's total production. Hydroelectric generation provided 3.4% of production with 1.0% coming from the District's own hydroelectric plants and 2.4% coming from purchases from the Arizona Power Authority ("APA") and the United States Department of Energy, Western Area Power Administration ("WAPA"). The remaining 37.9% came from various other purchases. Table 3 provides more detail on District power sources.

TABLE 3 — Fiscal Year 2002 District Power Sources

	Capability (MW) (1)	Net Production Amount (MWh) (2)	% of Total
District Generation:			
One Hundred Percent Entitlement — Hydroelectric:			
Roosevelt Dam	36	61,249	0.2
Mormon Flat Dam	58	95,891	0.2
Horse Mesa Dam	126	191,637	0.5
Stewart Mountain Dam	13	33,697	0.1
Canal Plant (Crosscut)	3	4,729	0.0
Canal Plant (South Consolidated)	1	1,658	0.0
Subtotal	237	388,861	1.0
One Hundred Percent Entitlement — Thermal:			
Kyrene	106	117,788	0.3
Kyrene (Gas Turbine)	165	129,490	0.3
Agua Fria	407	1,194,648	3.1
Agua Fria (Gas Turbine)	219	282,100	0.7
Santan Combined Cycle	368	1,258,939	3.3
Coronado Generating Station	785	5,072,396	13.2
Transportable Combustion Turbine	5	6,216	0.0
Subtotal	2,055	8,061,577	20.9
One Hundred Percent Entitlement — Renewable:			
Solar	—(3)	624	0.0
Alternative Fuels-Tri-cities landfill	—(4)	15,139	0.0
Participation Entitlements — Thermal:			
Navajo Generating Station	489	4,032,848	10.5
Four Corners Generating Station Units 4 & 5.	148	1,001,491	2.6
Mohave Generating Station	140	1,418,005	3.7
Hayden Generating Station Unit No. 2.	131	1,019,544	2.6
Craig Generating Station Units 1 & 2.	248	1,981,725	5.1
Palo Verde Nuclear Generating Station	648	5,090,051	13.2
Subtotal	1,804	14,543,644	37.7
Purchases and Receipts(6):			
APA — Arizona Power Authority	74(6)	193,829	0.5
WAPA — Colorado River Storage Project	112(7)	535,738	1.4
WAPA — Parker-Davis Dams	32(8)	193,237	0.5
WAPA — CAWCD/Navajo Surplus	645(9)	2,306,169	6.0
AEPCO — Arizona Electric Power Cooperative	100	682,994	1.8
Reliant — Desert Basin Generation	—(10)	1,622,963	4.2
TEP — Tucson Electric Power Company	100	738,865	1.9
Others	1,491(11)	9,254,726	24.0
Subtotal	2,554	15,528,521	40.3
TOTAL(12)	6,650	38,538,386	100.0

(1) Load capability during summer system peak as reported to the Southwest Reserve Sharing Group. Winter capability may be greater.

- (2) Actual net production during the fiscal year ended April 30, 2002. Energy for pumped storage operation is not deducted.
- (3) Solar (photovoltaic) units have a combined, nominal capability of 375 kW.
- (4) Alternative fuels — Tri-Cities Landfill Generation was not in operation on the summer peak day.
- (5) Purchase and receipt capabilities vary month to month. Listed are the capabilities for the peak month.
- (6) Includes 34 MW wheeled for certain electrical/irrigation districts.
- (7) Includes 9 MW wheeled for certain electrical/irrigation districts.
- (8) 32 MW available from March through September and 23 MW available from October through February.
- (9) Net of the Central Arizona Water Conservation District ("CAWCD") pumping load and losses totaling 94 MW that occurred coincident with system peak.
- (10) Reliant Desert Basin Generation did not begin until November 2001, after system peak.
- (11) Short-term purchases.
- (12) Totals may not add correctly due to rounding.

Jointly Owned Generation Facilities. The District has an ownership interest in six generating facilities. The percent participation of the District and the other participants in these facilities is set forth in Table 4. Additional information about each facility follows Table 4.

TABLE 4 — District Participation Interests in Existing Generating Facilities(1)

	<u>Navajo Generating Station</u>	<u>Four Corners Generating Station Units 4 & 5</u>	<u>Mohave Generating Station</u>	<u>Hayden Generating Station Unit 2</u>	<u>Craig Generating Station Units 1 & 2</u>	<u>Palo Verde Nuclear Generating Station</u>
Project Capabilities						
Total Continuous Load Capabilities (MW)	2,250	1,570(2)	1,580(3)	262	856	3,810(4)
Project Participants						
District	21.7%	10.0%	20.0%(5)	50.0%	29.0%	17.5%
APS	14.0	15.0	—	—	—	29.1
Department of Water & Power, Los Angeles ("LADWP")	21.2	—	10.0(5)	—	—	5.7
El Paso Electric Co. ("El Paso")	—	7.0	—	—	—	15.8
Nevada Power Company ("NPC")	11.3	—	14.0	—	—	—
Platte River Power Authority	—	—	—	—	18.0	—
PacifiCorp.	—	—	—	12.6	19.3	—
Public Service Company of Colorado ("PSCo")	—	—	—	37.4	9.7	—
Public Service Company of New Mexico ("PNM")	—	13.0	—	—	—	10.2
Southern California Edison Co ("SCE")	—	48.0	56.0	—	—	15.8
Southern California Public Power Authority ("SCPPA")	—	—	—	—	—	5.9
Tri-State Generation and Transmission Association, Inc. ("Tri-State")	—	—	—	—	24.0	—
Tucson Electric Power Company ("TEP")	7.5	7.0	—	—	—	—
U.S. Bureau of Reclamation ("USBR")	24.3(6)	—	—	—	—	—
Total Percentage	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

- (1) Generally, if a default by any participant in the payment or performance of an obligation under a participation agreement continues without having been cured or without the participant having commenced and continued to cure the default, then the non-defaulting participants may suspend the right of the defaulting participant to receive its capacity entitlement. In case of default, (a) each non-defaulting participant will bear a portion of the operation and maintenance costs otherwise payable by the defaulting participant in the ratio of the non-defaulting participant's respective capacity entitlement to the total capacity entitlement of all non-defaulting participants, and (b) the defaulting participant will be liable to the non-defaulting participants for all costs incurred by the non-defaulting participants pursuant to (a) and for all costs in operating the project at a reduced level of generation brought about by the reduction of the capacity entitlement of the defaulting participant. USBR's participation interest in the Navajo Generating Station is not subject to these suspension procedures, but USBR is obligated to bear its proportionate share of the operation and maintenance costs of any defaulting participant in the Navajo Generating Station. Currently there are no defaulting participants.
- (2) Amount shown is maximum capability. Normal continuous load capability is 1,480 MW.
- (3) Amount shown is maximum capability. Normal continuous load capability is 1,400 MW.
- (4) Amount shown is maximum capability. Normal continuous load capability is 3,666 MW.

- (5) The District, on November 30, 2001, acquired half (10%) of LADWP's share of Mohave increasing its ownership share to 20%.
- (6) The District holds legal title to this percentage of the Navajo Generating Station for the use and benefit of USBR.

Navajo Generating Station. The Navajo Generating Station ("NGS"), located on the Navajo Indian Reservation near Page in Northern Arizona, consists of three 750 MW coal-fired, steam-electric generating units. The units commenced commercial operations in 1974, 1975 and 1976, respectively. The facility also includes an electric railroad for fuel delivery and 500 kV transmission lines and switching stations to deliver the power and energy to the various participants. The District owns 21.7% of NGS and is the operating agent of the generating station and the railroad. The NGS coal supply is surface-mined and delivered from the Kayenta Mine, which is located on the Navajo and Hopi Indian Reservations in Northern Arizona.

See "THE ELECTRIC SYSTEM — Environmental Matters — Navajo Generating Station and Four Corners Generating Station Units 4 & 5" for a discussion of environmental considerations with respect to NGS, and administration of federal environmental laws by Indian tribes.

See "THE ELECTRIC SYSTEM — Existing and Future Resources — Fuel Supply — Coal, Oil and Natural Gas," and "LITIGATION — Coal Supply" for discussions relating to the NGS coal supply, and "LITIGATION — Environmental Issues" for a discussion of certain Navajo environmental laws.

Hayden Generating Station Unit 2. The District owns 50% of Hayden Generating Station Unit 2, a 262 MW coal-fired generating unit, which commenced operations in 1976 and is located in Hayden, Colorado. Public Service Company of Colorado ("PSCo") is the operating agent. PSCo is now a unit of Xcel Energy, which resulted from the merger of Northern States Power and New Century Energy, the previous parent of PSCo. The District's entitlement to power and energy from Hayden Generating Station Unit 2, like the power and energy from the Four Corners Generating Station Units 4 & 5 and Craig Generating Station Units 1 & 2, is subject to a displacement arrangement with WAPA.

See "THE ELECTRIC SYSTEM — Existing and Future Resources — Fuel Supply — Coal, Oil and Natural Gas" for comments relating to the coal supply for the Hayden Generating Station Unit 2.

Four Corners Generating Station Units 4 & 5. The Four Corners Generating Station Units 4 & 5, operated by APS, are located on the Navajo Indian Reservation near Shiprock, New Mexico. The District owns 10% of Units 4 and 5, two 785 MW (maximum capability) coal-fired generating units, which commenced operations in 1969 and 1970, respectively. Coal comes from area mines located on the Navajo Indian Reservation.

The District's entitlement to power and energy from the Four Corners Generating Station Units 4 & 5, like power and energy from Hayden Generating Station Unit 2 and Craig Generating Station Units 1 & 2, is delivered to WAPA and used for WAPA's customers located in Colorado, New Mexico, Utah and Wyoming. WAPA delivers a similar amount of power and energy to the District from the Glen Canyon Hydroelectric Generating Station. This is a displacement arrangement that reduces transmission investment, operating expenses and energy losses both for WAPA and for the District.

See "THE ELECTRIC SYSTEM — Existing and Future Resources — Fuel Supply — Coal, Oil and Natural Gas" for comments relating to the coal supply for the Four Corners Generating Station Units 4 & 5.

See "THE ELECTRIC SYSTEM — Environmental Matters — Navajo Generating Station and Four Corners Generating Station Units 4 & 5" for a discussion of administration of federal environmental laws by Indian tribes.

See "LITIGATION — Environmental Issues" for a discussion of certain Navajo environmental laws.

Mohave Generating Station. The District owns 20% of Mohave, which is operated by SCE and which consists of two 790 MW coal-fired units. Mohave commenced operations in 1971 and is located in Clark

County, Nevada, on the Colorado River. Fuel is supplied by a slurry pipeline from a mine located on the Navajo and Hopi Indian Reservations in Northern Arizona.

In 1999, the Mohave Participants entered into a settlement with the Sierra Club that requires the installation of pollution abatement equipment by the end of 2005 if the plant will continue to be operated with coal. In addition, the Hopi Tribe has demanded that pumping water for the slurry pipeline cease by the end of 2005. The Mohave Participants have refused to commit to install pollution abatement equipment without reasonable assurance that water will be available to deliver coal to the plant; therefore, because of the time required to order and install the pollution abatement equipment, the plant will likely cease operations at the end of 2005 for some period of time. The District has included the costs of such equipment in its Capital Improvement Program. The District believes that it will be able to replace the energy from Mohave from other sources. Although the Mohave Participants and the Tribe are working diligently to reach a settlement, it is not certain if, and when, a resolution will be reached. If a settlement is not reached, the District believes that the site can continue as a generation source with an alternative fuel and options for such are under review.

See "THE ELECTRIC SYSTEM — Existing and Future Resources — Fuel Supply — Coal, Oil and Natural Gas" and "LITIGATION — Coal Supply" for a discussion of matters relating to the coal supply for Mohave.

Craig Generating Station Units 1 & 2. The District owns 29% of Craig Generating Station Units 1 & 2, which are operated by Tri-State. The two 428 MW coal-fired generating units commenced operations in 1981 and 1979, respectively. The Craig Generating Station Units 1 & 2 are located in the Yampa Valley near the City of Craig in northwestern Colorado. The District's entitlement to power and energy from Craig Generating Station Units 1 & 2, like the power and energy from Four Corners Generating Station Units 4 & 5 and Hayden Generating Station Unit 2, is subject to a displacement arrangement with WAPA.

Palo Verde Nuclear Generating Station. The District owns 17.49% of the Palo Verde Nuclear Generating Station ("PVNGS"), located near Wintersburg, Arizona, which consists of three approximately 1,270 MW pressurized water nuclear generating units. APS is the project manager and operating agent. The District declared Units 1, 2 and 3 in commercial operation in 1986, 1986, and 1988, respectively.

The participants believe it is cost-effective to replace the steam generators in Unit 2 in 2003 and have approved their purchase and installation. The District has included its share of such costs, estimated at approximately \$35 million, in its Capital Improvement Program. APS has advised the participants that it is uncertain that the steam generators in Units 1 and 3 could continue to operate through their licensed life due to increasing degradation from corrosion. The participants are evaluating APS' proposal to replace the steam generators and the economics of the timing of the replacements. The District has included approximately \$70 million for the replacements in its Capital Improvement Program.

See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY — Nuclear Plant Matters" for a discussion of liability issues.

Purchased Power. The District supplies a portion of its energy and demand requirements with purchased power from several sources as shown in Table 3. In fiscal year 2002, approximately 16.3% of the District's energy requirements were met with long-term power purchases. An additional 24.0% was met with short-term purchases by contracts of at least one-month duration.

The District has multiple long-term contracts to purchase WAPA power. A total of 916 MW peak capacity is expected to be available under various contracts with APA, CRSP, the Parker-Davis Project, and CAWCD. The expiration dates of these contracts span the period from September 30, 2008 to September 30, 2024.

The District has long-term power purchase contracts with AEPCO and TEP. Each contract provides for the District to purchase 100 MW of firm power. The expiration dates of these contracts are in fiscal years 2011 and 2012, respectively.

The District has entered into a ten-year contract with Reliant Energy Desert Basin, LLC ("Reliant") for the long-term purchase of 575 MW of capacity produced at Reliant's Desert Basin Generating Station located

in Central Arizona. The District has contracted for the right to match any offer Reliant may receive for a long-term sale for periods beyond the ten-year term.

See "SELECTED OPERATIONAL AND FINANCIAL DATA — Customers, Sales, Revenues and Expenses — Contractual Obligations Relating to Bonds of Other Political Subdivisions" herein.

See "LITIGATION — Gas Supply" for a discussion of fuel supply issues.

Future Resources. The District reviews options for obtaining reliable resources at the lowest possible cost. In addition to the options described below, the District also pursues short-term and long-term purchases, refinements to its conservation programs, building its own new generation, acquiring existing generation facilities and ventures with other plant developers to acquire the output from other plants being constructed. Since Arizona and many other western states have either deferred or reexamined implementation of deregulation of the electric industry, some merchant generators are seeking buyers for sales of power from, or purchases of their plants, both in operation or under construction. The District continues to evaluate these developments, including the possibility of acquiring an existing generation plant.

Kyrene Generating Station. The District has completed construction of a 250 MW natural gas-fired power plant at its existing Kyrene Generating Station. The plant is expected to begin commercial operation in October 2002.

Santan Generating Station. The ACC approved a certificate of environmental compatibility ("CEC") for a proposed 825 MW expansion of the District's Santan Generating Station in the Town of Gilbert, scheduled for operation in fiscal year 2006. The District still needs to obtain an air quality permit from Maricopa County, a wastewater discharge permit from the Arizona Department of Environmental Quality under the Clean Water Act and an aquifer protection permit under the Arizona Aquifer Protection Program. The District does not anticipate any delays in obtaining these permits.

Springerville Generating Station. The District has entered into an agreement with UniSource Energy Development Company ("UniSource") for the joint development of two additional coal-fired generating units, approximately 400 MW each in size, to be located at the existing Springerville (Arizona) Generating Station. The units would be operated by UniSource's affiliate, TEP. Construction of the units is subject to numerous conditions and no assurance can be given that such conditions will be satisfied. Among other things, the parties are still exploring various options for the timing, financing and ownership of the two units.

Transmission. Electricity from the District's diversified generation resource mix is delivered to customers over a complex and reliable transmission system, which is integrated into the grid that connects transmission lines in the West. The District owns transmission systems that deliver electricity from its generating resources to its loads. However, when it was not prudent to build a new transmission system, the District has acquired contract rights on transmission systems owned by others. In addition to utilizing its transmission system to deliver electricity from its generating resources, the District uses its transmission system to access generation resources produced by others when the District's load is greater than its resource capability, to sell excess electricity, and to transmit energy for others when surplus transmission capacity is available.

The District is working with other utilities in Arizona, New Mexico, Colorado, Wyoming and Texas to develop a regional transmission organization ("RTO") known as WestConnect RTO, LLC ("WestConnect"). WestConnect made a filing with the Federal Energy Regulatory Commission ("FERC") on October 16, 2001 for approval. Upon acceptance by FERC, WestConnect could be operational in late 2003 or 2004. The District is unable to predict the outcome of these efforts.

In 2001, the District and other Arizona utilities initiated a regional transmission study known as CATS (Central Arizona Transmission System) to evaluate the mid and long-term high voltage transmission facility needs in central Arizona. The first phase of study work was completed in April 2001, and the second phase of study work, evaluating the most promising transmission options, was completed in June 2002. The District is involved in specific projects resulting from the first phase of study, and the District plans to initiate the licensing process on those transmission projects that provide direct benefits to the District's customers.

Fuel Supply. The District's projected use of fuel and other energy sources by type is shown on the following table, which summarizes the District's various sources of energy assuming the most efficient utilization of the facilities expected to be available for the dates indicated.

TABLE 5 — Summary of Projected Energy Sources
(expressed as a percentage of total sources)

<u>Fiscal Year Ending April 30,</u>	<u>Hydro(1)</u>	<u>Gas/Oil</u>	<u>Coal</u>	<u>Nuclear</u>	<u>Renewables</u>	<u>Long Term Purchases</u>	<u>Other Purchases</u>
2003	5.2%	4.5%	47.4%	16.4%	0.1%	13.9%	12.6%
2004	5.2%	5.1%	49.2%	16.0%	0.1%	14.9%	9.5%
2005	4.9%	7.5%	46.5%	15.8%	0.1%	15.1%	10.0%
2006	4.6%	12.2%	44.6%	14.9%	0.1%	15.3%	8.4%
2007	4.5%	12.4%	45.6%	14.4%	0.1%	14.6%	8.4%
2008	4.3%	15.8%	43.4%	13.7%	0.1%	15.5%	7.2%

(1) Includes hydro purchases.

Coal, Oil and Natural Gas. Hayden Generating Station Unit 2, NGS, Four Corners Generating Station Units 4 & 5, Mohave, and Craig Generating Station Units 1 & 2 are coal-fired generating units. The coal supply contract for the Four Corners Generating Station expires at the end of 2004; for Mohave at the end of 2005, for NGS in 2011, and for Hayden at the end of 2011. The two coal supply contracts for Craig expire July 1, 2014 and December 31, 2017, respectively. The District believes it will be able to obtain coal from these or other sources for the remainder of the operational life of each plant. Approximately 20% of the coal requirements for Units 1 & 2 of the Craig Generating Station are purchased periodically through the spot market.

The Coronado Generating Station ("CGS") is also coal-fired. There are four coal supply agreements for the station. The first agreement extends until December 31, 2006 and provides 43% of the annual coal requirements for both Units 1 and 2. The second agreement provides for 14% of the coal requirements of CGS for 2002. The third agreement is for 18% of the requirements in 2002 and 40% of the requirements in 2003 and 2004. The other agreement supplies the remaining requirements for calendar year 2002. The District is assessing further coal supply options for the future, including the potential to develop coal reserves at a location known as Fence Lake in northwest New Mexico. The District has recently received a Federal Mining Plan Approval from the U.S. Department of the Interior for Fence Lake; however, no decision has been made to proceed with this development. The District believes it can continue to meet the coal requirements for CGS.

The current stockpile sizes for all coal generating stations are at or above acceptable levels for normal operations.

There are disputes concerning the coal supply agreements at the Navajo, Mohave, and Four Corners Generating Stations. The District does not believe that these disputes will have material adverse effects on its operations or financial condition. However, final resolution of any of these disputes cannot be predicted at this time. See "LITIGATION — Coal Supply" for additional discussion of coal supply litigation or arbitration.

The District utilizes natural gas almost exclusively to fuel its oil or gas-fired units in the Phoenix-Mesa MSA and plans to continue to do so as long as gas remains available at costs that are economically favorable over other alternatives. The District purchases natural gas pursuant to energy risk management policies and trading strategies. These policies and strategies are designed to minimize price, credit and operational risk while ensuring that gas is available in sufficient quantity to meet demands of the retail and wholesale electricity customers of the District.

Natural gas price hedging is primarily accomplished through the use of financial instruments such as exchange-traded futures and options contracts and "over the counter" swaps and options contracts. Hedging

activities focus on a rolling two to three year period into the future relative to the District's retail customer demand. See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY — District's Response to Utility Industry Developments — Energy Risk Management Program" herein, for a discussion of the District's Risk Management Program.

Natural gas is purchased on the forward and spot markets. Natural gas storage contracts are utilized to balance supply and demand as well as help manage price risk and ensure reliable delivery. Gas is delivered to the District's generating facilities via a full requirements transportation contract with El Paso Natural Gas Company ("El Paso"). See "LITIGATION — Natural Gas Supply" for matters relating to natural gas contracts.

Nuclear. The nuclear fuel cycle for PVNGS is comprised of the following stages: the mining and milling of uranium ore to produce uranium concentrates; the conversion of uranium concentrates to uranium hexafluoride; the enrichment of uranium hexafluoride; the fabrication of fuel assemblies; the utilization of fuel assemblies in reactors; and the storage and disposal of spent fuel. APS, on behalf of the Palo Verde Participants (APS, the District, EPE, SCE, PNM, SCPPA, and LADWP), has procured under contract 100% of the materials and services required to provide uranium concentrates through the year 2008, 100% of the requirements for conversion services through 2008, 100% of the requirements for enrichment services through 2010, and 100% of the requirements for fabrication services through the year 2016. These amounts are qualified in 2003 and 2004 for uranium ore and 2004 for conversion service due to strategic fuel design changes to allow a more efficient change to using enriched uranium product. The District expects the shortages to be filled by January 1, 2003. Availability of all fuel services are generally good and APS anticipates securing additional fuel services when economic to do so.

See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY — Nuclear Plant Matters" herein, which includes further discussion on spent nuclear fuel.

Insurance and Liability Matters

The liability exposure of electric utilities has generally increased over time as the diversity and number of claims and resulting awards have increased. Electric utility insurance needs have increased accordingly in the areas of coverage and policy limits. In general, over the long-term, the commercial insurance market has not satisfied these increased needs. The commercial insurance market is highly cyclical, with cycles characterized by periods of increasing limits and coverage with lower deductibles, followed by periods of coverage and limit restrictions, higher deductibles and, in some cases, non-renewals or cancellations. As a result, several industry mutual companies have been formed to serve the coverage and limit requirements of the industry, and the District has placed a majority of its liability and directors and officers insurance with such mutual carriers to ensure long-term stability of its insurance programs. The District does continue to place some liability coverages in the commercial market.

Insurance for boiler and machinery and property risks in the past was obtained primarily from the commercial market. Coverage and limits the District requires have been adequate, although insurer competition in this market has been declining due to increasing utility loss experience, consolidation of insurers and declining investment income. These factors, as well as losses in connection with the destruction of the World Trade Center, have resulted in higher premiums and deductibles and restricted limits and coverage. The District intends to continue the use of commercial carriers to insure machinery and property risks and to expand the use of industry mutual insurance companies to the extent adequate capacity is available.

In response to the tragic events at the World Trade Center in New York on September 11, 2001, the District has placed its operations on highest alert and has taken security measures beyond those normally in effect to protect its Electric System and other assets.

Environmental Matters

General. The District's policy is to conduct its operations in compliance with all applicable federal, state, tribal, and local laws, regulations, and rules relating to the environment.

See "THE ELECTRIC SYSTEM — Environmental Matters — Navajo Generating Station and Four Corners Generating Station Units 4 & 5" below for a discussion of administration of federal environmental laws by Indian tribes.

Waste Management. Many normal activities in connection with the operation of the Project generate hazardous and non-hazardous wastes. Federal, state, and local laws and regulations governing waste management impose strict liability for cleanup costs and damages resulting from hazardous substance release or contamination, regardless of time or location, on those who generate, transport, store, treat, or dispose of hazardous wastes. At any given time, various Project facilities may be subject to inspection by federal, state, or local regulatory authorities to determine compliance with laws and regulations pertaining to hazardous and non-hazardous waste management, and Project facilities may be included in studies of contaminated sites by federal and state regulatory authorities. The District has established a plan for managing hazardous waste to ensure compliance with applicable laws and regulations, and independently assesses Project facilities to determine whether there is any contamination resulting from its activities. From time to time the District and the Association receive inquiries from regulatory authorities about the status of various contaminants at the District's facilities, and respond as appropriate.

Water Quality. Arizona has an extensive regulatory system governing water quality, including a permit program for discharges that could affect groundwater, and a superfund program to clean up groundwater contamination. Eight state superfund sites have been established within the greater Phoenix metropolitan area. Preliminary reports have identified District facilities as possible sources of contamination for some of these areas. The impacts, in terms of cost and operational problems, to the District of the reports or laws and regulations pertaining to water quality cannot be quantified at this time.

See "THE DISTRICT — Irrigation and Water Supply System" above for a discussion of well remediation activities.

See "THE ELECTRIC SYSTEM — Environmental Matters — Navajo Generating Station and Four Corners Generating Station Units 4 & 5" below for a discussion of administration of federal environmental laws by Indian tribes.

Air Quality. In common with other electric utilities and industries, the District is subject to federal, state, and local standards to control air quality. These standards substantially increase the cost of, and add to the difficulty of siting, constructing, and operating electric generating units. At the locations of the principal generating units now in operation, the relatively high quality of the air and proximity to large national parks, monuments, wilderness areas and Indian reservations may subject the District to particularly stringent control standards. Visibility issues may also impact operations at District facilities and are being closely monitored by the District. The full significance of air quality standards to the District in terms of cost and operational problems is difficult to predict, but it is possible that costly equipment will have to be added to units now in operation. In addition, permit fees may increase significantly.

See "THE ELECTRIC SYSTEM — Environmental Matters — Navajo Generating Station and Four Corners Generating Station Units 4 & 5" below for a discussion of administration of federal environmental laws by Indian tribes.

Navajo Generating Station and Four Corners Generating Station Units 4 & 5. Certain environmental laws, including the Clean Air Act (the "CAA"), the Clean Water Act, and the Safe Drinking Water Act, contain provisions pursuant to which Indian tribes may be treated as states for purposes of administering programs under those acts. The EPA has issued rules for approval of various tribal programs, which allow a tribe to seek approval to regulate all lands within the exterior boundaries of the tribe's reservation. The Navajo Nation has obtained EPA approval to administer programs under some of these laws. The EPA has not included NGS or the Four Corners Generating Station in the lands covered by approved tribal programs because of a dispute over the effect of covenants, in the leases between the Navajo Nation and the plants, which state that the Navajo Nation will not regulate the plants. EPA has published a notice in the Federal Register stating that it will give the plants notice and an opportunity to be heard if the Navajo Nation requests authority to regulate either of the plants. The Arizona Department of Environmental Quality has advised the

District and APS that it is no longer regulating environmental matters relating respectively to NGS and the Four Corners Generating Station since the two plants are located on the Navajo Indian Reservation. NGS and the Four Corners Generating Station are regulated by EPA Region IX in San Francisco, California, and comply with applicable federal regulations.

See "LITIGATION — Environmental Issues — Navajo Environmental Laws" for a discussion of related lawsuits.

Craig Generating Station Units 1 & 2. In 1996, the Sierra Club served each of the five participants in the Craig Generating Station with a complaint pursuant to section 304 of the Federal CAA, alleging among other things, violations of opacity standards by Craig Units 1 and 2. After extensive negotiations, the parties agreed to a settlement, which was approved by the court on March 19, 2001. Under the terms of the settlement, the participants must install fabric filter baghouses, scrubber improvements and other equipment on Craig Units 1 and 2 by December 31, 2003 and June 30, 2004, respectively. Capital costs are estimated at \$123 million, of which the District's share would be \$35.6 million. Costs of the upgrades to comply with the settlement have been included in the District's Capital Improvement Program.

ELECTRIC PRICES

Under Arizona law, the District's publicly elected Board has the authority to establish electric prices. While the Articles of Incorporation of the Association provide that the Secretary of the Interior may revise electric prices, the Secretary of the Interior has never requested any revision of the District's electric prices. The District is required to follow certain procedures for public notice and a special Board meeting before implementing any changes in the standard electric price plans.

The District is a summer peaking utility and for many years has made an effort to balance the summer-winter load relationships through seasonal price differentials. In addition, the District prices on a time-of-day basis for large commercial and industrial, and certain residential and small commercial, users.

In 1998, the District reduced overall standard electric rate schedules ("retail prices") for residential, commercial, pumping and industrial customers by an average 5.4%. During this price process, the District complied with the requirements of the Electric Power Competition Act, enacted by the Arizona Legislature in 1998 (the "Competition Act"), related to retail electric prices. The District unbundled all retail price plans, established a competitive transition charge ("CTC") and, with the 5.4% average decrease in retail prices, complied with the requirement to reduce the price for bundled service for electric retail customers by at least 10% over a ten-year period. The Competition Act capped the price plans during the CTC collection period at the price levels in effect on December 30, 1998. See "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY — Competition in Arizona" and "— District's Response to Utility Industry Developments" for further discussion of the Competition Act.

On May 15, 2000, the District further reduced overall retail prices by another 1.0%. The District continued to prepare for competition through this price process by further aligning unbundled electric prices with costs; introducing differentiated meter charges; adding additional incentives for peak shifting through the Time-of-Use price signal for residential customers; introducing new interruptible and market price options for business customers; and increased substation ownership and maintenance options for customers served through dedicated substations.

On November 26, 2001, the District completed a review of its price plans and riders and the level of its CTC associated with stranded cost recovery. The District elected to retain the CTC at its existing level until June 1, 2004 and approved a Fuel and Purchase Power Adjustment Mechanism that became effective May 1, 2002. Other changes to the District's price plans and riders became effective December 31, 2001. The District's management is studying the possible need for a future price increase.

CAPITAL IMPROVEMENT PROGRAM

The Capital Improvement Program is a moving six-year forecast of all District construction expenditures, and is subject to change from time to time for several reasons, including changes in construction costs, projects being added, deleted, deferred or completed and changes in the period covered by the forecast.

The 2003 through 2008 Capital Improvement Program totals \$3,052 million. Of this total, \$2,812 million is for construction (including contingencies), \$86.6 million is for capitalized administrative and general expenses, \$87.5 million is for capitalized voluntary contributions in lieu of taxes, and \$66.0 million is for capitalized interest. In the past, the District has paid a portion of the cost of the Capital Improvement Program from internally generated funds and a portion from the proceeds of Revenue Bonds. The District anticipates funding approximately 55% of the 2003 through 2008 Capital Improvement Program from internally generated funds. The remainder is anticipated to be funded by Revenue Bonds, other forms of indebtedness and third party contributions.

The Capital Improvement Program is being driven by the need to expand the generation, transmission and distribution systems of the District in order to meet growing customer electricity needs and to maintain a satisfactory level of service reliability. Of the \$3 billion Capital Improvement Program, slightly less than \$1 billion is directed to generating projects. These include the expansion of the Kyrene and Santan Generating Stations. Slightly less than \$1 billion is planned for expansion of the electrical distribution system to meet new growth and to replace aging underground cable. The addition of new 69kV transmission facilities and the construction of a new high voltage transmission line account for \$125 million of the planned expenditures for transmission.

To provide for uncertainties in construction costs (including possible schedule changes, and other factors that may affect construction costs) and to provide a scope allowance for projects that may be needed in the future but are not yet identified, the District has included a general contingency allowance in the 2003 through 2008 Capital Improvement Program in addition to specific contingency allowances provided for major construction projects. No assurance is given that the estimated costs and contingency allowance will be adequate for their purposes.

Table 6 summarizes the District's 2003 through 2008 Capital Improvement Program.

**TABLE 6 — 2003 through 2008 Capital Improvement Program
(\$000)**

	Fiscal Year Ended April 30,						Total
	2003	2004	2005	2006	2007	2008	2003-08
Electric Construction:							
Generation.....	\$188,790	\$254,400	\$154,610	\$ 67,270	\$145,000	\$129,690	\$ 939,760
Transmission.....	58,490	37,900	28,480	26,130	23,020	28,550	202,570
Distribution.....	155,880	145,950	159,830	163,890	176,080	177,420	979,050
Retail Sales and Services ...	15,420	15,860	12,630	11,180	10,470	10,600	76,160
Operational Support.....	36,910	26,510	21,300	23,500	23,570	25,180	156,970
Subtotal — Electric Construction.....	455,490	480,620	376,850	291,970	378,140	371,440	2,354,510
Contingency Allowance & Risk Portfolio.....	39,210	41,110	70,520	90,910	89,130	126,950	457,830
Subtotal.....	494,700	521,730	447,370	382,880	467,270	498,390	2,812,340
Capitalized administrative and General expenses	13,760	14,020	14,270	14,560	14,850	15,160	86,620
Capitalized voluntary contributions.....	14,030	14,320	14,450	14,730	14,970	14,970	87,470
Capitalized interest.....	13,965	10,912	10,676	9,783	10,521	10,104	65,961
Total(1).....	<u>\$536,455</u>	<u>\$560,982</u>	<u>\$486,766</u>	<u>\$421,953</u>	<u>\$507,611</u>	<u>\$538,624</u>	<u>\$3,052,391</u>

(1) Totals may not exactly equal the sum of the above entries due to rounding.

SELECTED OPERATIONAL AND FINANCIAL DATA

Customers, Sales, Revenues and Expenses

Classification of Customers. The District has a diversified customer base. No one customer represents more than 2.9% of operating revenues. The classifications of the District's electric customers are shown in Table 7.

TABLE 7 — 2002 Customer Accounts, Sales, and Revenues
Fiscal Year Ended April 30, 2002

	Customer Accounts At April 30, 2002	Total Sales (GWh)	%	Sales Revenue (\$000)	%
Residential.....	700,010	10,561	28.9	\$ 775,426	36.0
Commercial and Small Industrial.....	62,681	8,302	22.7	519,148	24.0
Large Industrial	22	1,890	5.2	81,297	3.7
Mines	21	1,392	3.8	51,858	2.4
Pumps	344	67	0.2	4,091	0.2
Street Lights	7,929	168	0.5	16,745	0.8
Municipal	1,731	422	1.1	23,992	1.1
Affiliated Retail(1)	0	0	0.0	1,135	0.1
Interdepartmental	1	151	0.4	8,624	0.4
Subtotal/Retail	<u>772,739</u>	<u>22,953</u>	<u>62.8</u>	<u>\$1,482,316</u>	<u>68.7</u>
Electric					
Utilities/Wholesale.....	<u>52</u>	<u>13,581</u>	<u>37.2</u>	<u>673,981</u>	<u>31.3</u>
Total.....	<u>772,791</u>	<u>36,534</u>	<u>100.0</u>	<u>\$2,156,297</u>	<u>100.0</u>

(1) Affiliated Retail Sales Revenues in fiscal year 2002 reflect the recovery of a prior year write-off for New West Energy.

As has been historically the case, the residential group of customers accounted for the largest energy consumption. With 700,010 customers at April 30, 2002, this group serves as a solid base, bringing in nearly half of total retail electric revenues. The District forecasts an average increase of over 27,000 residential customers each year over the period from 2003 through 2008 as discussed herein.

The second largest retail customer classification is the commercial and small industrial group; these customers numbered 62,681 at April 30, 2002 against 59,700 twelve months earlier. The commercial and small industrial group represents a highly diverse customer base, which includes businesses such as newspapers, dentists, cosmetics, fast food, repair shops, schools, apartments, and grocery stores.

In 1995, the District implemented a Full Electric Service Requirements Rider ("FESR") for its large industrial and mine customers. The FESR provides a 3% discount for customers who signed an agreement to buy all energy requirements from the District for a period of five or six years. In 2000, the District approved (i) an extension of the FESR agreements through December 31, 2001, and (ii) the conversion of the discount such that the discount applies only to the competitive energy portion of the bill. In November 2001, the District approved a further extension of the FESR agreements. Customers, at their option, elected 3-year or 4-year FESR extension terms that will be in effect through December 31, 2004 or December 31, 2005, respectively. Substantially all of the District's largest customers are served under FESR agreements.

The remaining customer categories span a wide range of customers and industries, which include manufacturers, government contractors, gas and chemical producers, agricultural interests, and municipalities.

Historical Operating Statistics. The following table shows certain historical operating statistics of the District for the five years ending April 30, 2002.

TABLE 8 — Historical Operating Statistics

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
SERVICE:					
Total Customers at Year-End.....	671,096	701,196	727,070	746,368	772,791
Total Sales (million kWh)	26,202	31,615	32,801	36,323	36,534
Average Revenue per kWh (cents)	5.76	5.31	5.35	8.21	5.90
District Only: (excludes sales for resale and affiliated retail)					
Sales (millions kWh)	19,786	19,944	21,075	22,643	22,952
Increase in Sales (%)	5.1	0.8	5.7	7.4	1.4
TOTAL OPERATING REVENUES					
(000's omitted):(1)	<u>\$1,529,285</u>	<u>\$1,704,604</u>	<u>\$1,790,415</u>	<u>\$3,020,348</u>	<u>\$2,217,640</u>
OPERATING EXPENSES					
(000's omitted):					
Power Operations(2)	\$ 630,970	\$ 761,936	\$ 847,621	\$1,636,184	\$1,312,210
Operating and Maintenance(3)	178,126	222,925	195,800	361,198	220,496
Sales and Payroll Taxes.....	17,729	17,878	21,115	20,225	19,689
Ad Valorem Taxes(4)	<u>2,882</u>	<u>2,885</u>	<u>4,959</u>	<u>4,475</u>	<u>5,220</u>
Total Operating Expenses	<u>\$ 829,707</u>	<u>\$1,005,624</u>	<u>\$1,069,495</u>	<u>\$2,022,082</u>	<u>\$1,557,615</u>
NET OPERATING REVENUES	<u>\$ 699,578</u>	<u>\$ 698,980</u>	<u>\$ 720,920</u>	<u>\$ 998,266</u>	<u>\$ 660,025</u>
VOLUNTARY CONTRIBUTIONS					
IN LIEU OF TAXES					
(000's omitted):(5)					
Expensed	\$ 71,357	\$ 69,890	\$ 64,849	\$ 56,048	\$ 59,617
Capitalized	<u>1,325</u>	<u>901</u>	<u>33</u>	<u>201</u>	<u>299</u>
Total(6)	<u>\$ 72,682</u>	<u>\$ 70,791</u>	<u>\$ 64,882</u>	<u>\$ 56,249</u>	<u>\$ 59,916</u>
OTHER STATISTICS:					
Annual Peak (MW):					
System Requirements	4,244	4,666	4,657	5,002	5,164
Total Peak Load(6)	5,086	5,534	5,725	6,205	6,350
System Load Factor (%) (7)	54.4	50.2	53.6	52.9	52.0
Residential Statistics:					
Fiscal Year-End Residential Customers	609,401	635,652	659,324	676,673	700,010
Annual Sales (million kWh)	8,559	8,574	9,105	10,211	10,561
Average Annual Usage (kWh)	14,323	13,840	14,071	15,299	15,295
Average Sales Price per kWh (cents)	7.91	7.85	7.55	7.33	7.34

(1) Includes inter-company sales and other electric revenue.

(2) Excludes charges for water for power, depreciation on generation and railroad facilities, ad valorem taxes and voluntary contributions in lieu of taxes on railroad facilities.

(3) Excludes depreciation on transmission, distribution and general plant.

(4) Applies to out-of-state properties owned by the District.

(5) See "Customers, Sales, Revenues and Expense — Voluntary Contributions in Lieu of Taxes."

(6) Includes sales for resale, remote losses and interruptible load transactions.

(7) System load factor is the ratio of system energy requirements in kWh to the product of the system requirements times the number of hours in a year. These percentages reflect in major part the wide differential between the extreme summer cooling season and the moderate winter heating season.

Projected Operating Statistics. The following table shows certain projected operating statistics of the District. Reflected in the values are anticipated retail sales losses due to customer choice. Total operating revenues also reflect revenue from stranded cost recovery for fiscal years 2003 and 2004. The projected operating statistics are based on certain assumptions that may not occur. Failure to realize such assumptions may adversely affect the projections.

TABLE 9 — Projected Operating Statistics

	Fiscal Year Ending April 30,					
	2003	2004	2005	2006	2007	2008
SERVICE:						
Total Customer at Year-End (Distribution) (1)	783,479	807,301	835,291	864,505	893,126	920,762
Total Customers at Year-End (Energy) (2)	783,479	807,301	835,291	864,432	892,846	915,462
Total Energy Sales (million kWh) ..	29,878	29,910	31,420	33,425	34,236	35,120
Average Revenue per kWh (cents)	6.06	6.47	6.05	6.16	6.31	6.48
District Only: (excludes sale for resale)						
Sales (million kWh)	22,682	23,572	24,849	25,560	26,554	27,131
Increase in Sales (%)	N/A	3.92%	5.42%	2.86%	3.89%	2.18%
TOTAL OPERATING REVENUES:						
(000's omitted) (3) (4)	\$1,810,075	\$1,936,641	\$1,899,358	\$2,058,549	\$2,161,326	\$2,275,080
TOTAL OPERATING EXPENSES:						
(000's omitted)						
Power Operations (5)	599,965	623,341	659,465	713,013	748,438	775,324
Operating and Maintenance (6) ...	543,148	567,833	580,364	611,224	615,632	615,968
Ad Valorem Taxes (7)	5,651	5,651	5,651	5,651	5,651	5,651
Total Operating Expenses	1,148,764	1,196,825	1,245,480	1,329,888	1,369,721	1,396,943
NET OPERATING REVENUES	\$ 661,311	\$ 739,816	\$ 653,878	\$ 728,661	\$ 791,605	\$ 878,137
VOLUNTARY CONTRIBUTIONS						
IN LIEU OF TAXES						
(000's omitted)						
Expensed	\$ 61,712	\$ 76,833	\$ 80,314	\$ 80,733	\$ 86,521	\$ 88,576
Capitalized	200	400	410	410	420	430
Total	\$ 61,912	\$ 77,233	\$ 80,724	\$ 81,143	\$ 86,941	\$ 89,006
OTHER STATISTICS:						
Annual Peak: (MW)						
Service Territory System Requirements	5,300	5,500	5,720	5,940	6,170	6,400
Total Peak Load	5,690	5,895	6,122	6,349	6,587	6,445
System Load Factor (%)	50.2	50.3	50.9	51.2	51.4	51.5
Residential Statistics:						
Fiscal Year-End Residential Customers (8)	709,651	731,080	756,332	782,824	808,791	828,829
Annual Sales (million kWh) (8) ..	10,149	10,468	10,867	11,300	11,738	12,089
Average Annual Usage (kWh) ..	14,302	14,318	14,368	14,435	14,513	14,585
Average Sales Price per kWh (cents) (9)	7.33	7.31	6.63	6.63	6.63	6.63

- (1) Reflects District distribution area customer forecast.
- (2) Reflects anticipated retail energy customer losses due to customer choice.
- (3) Includes District retail and wholesale sales and anticipated price increases commencing fiscal year 2004.
- (4) Includes sales to District retail customers only, anticipated customer losses and anticipated price increases.
- (5) Excludes charges for water for power, depreciation on generation and railroad facilities, ad valorem taxes and voluntary contributions in lieu of taxes on railroad facilities.
- (6) Excludes depreciation on transmission, distribution, and general plant and includes payroll taxes.
- (7) Applies to out-of-state properties owned by the District.
- (8) Residential energy customers only — after anticipated customer losses.
- (9) Excludes anticipated price increases.

Voluntary Contributions in Lieu of Taxes. In accordance with permissive legislation, the District makes voluntary contributions each year to the State of Arizona, school districts, cities, counties, towns and other political subdivisions of the State of Arizona, for which property taxes are levied and within whose boundaries the District has property devoted to furnishing electric service. As a political subdivision of the State of Arizona, the District is exempt from property taxation. The amount paid is computed on the same basis as ad valorem taxes paid by a private utility corporation with allowance for certain deductions. Contributions based on the costs of construction work in progress are capitalized, and those based on plant-in-service are expensed.

Contractual Obligations Relating to Bonds of Other Political Subdivisions. The District has payment obligations under certain long-term contracts that secure Debt Service payable on bonds issued by another Arizona political subdivision. The District entered into power sales contracts in 1990 and 1991 with WAPA, USBR and CAWCD for the purchase of a total of 350 MW of peaking power. CAWCD's rights to receive payments from the District under these power sales contracts have been assigned to secure the payment of debt service on certain contract revenue bonds issued by CAWCD at varying interest rates per maturity and with a final maturity of 2011. The outstanding principal amount of these CAWCD bonds at June 30, 2002, was approximately \$172.5 million. The District anticipates that payment by the District under these two power sales contracts with CAWCD will total \$233.1 million; payments under the power sales contracts will be made on a monthly basis for power available through September 30, 2011. The District is obligated under the power sales contracts with WAPA, USBR and CAWCD to pay each month for its allocated capacity at a capacity charge of \$6 per kilowatt per month for the period beginning on the date of initial service and ending September 30, 2011. The power sales contracts provide that this obligation of the District is absolute and unconditional and constitutes a general obligation of the District and not a special charge, lien, or pledge of the revenues of the Electric System. The power sales contracts also provide that the District may pay the capacity charge from the revenues of the Electric System as an operating expense so long as no "long-term forced outage" (as defined in the power sales contracts, being an outage or curtailment which reduces the District's contract capacity to 70% or less for an uninterrupted period exceeding 30 days) occurs and is continuing. During a long-term forced outage, the power sales contracts provide that the District will make the payments from its General Fund.

See "The ELECTRIC SYSTEM — Existing and Future Resources-Purchased Power" herein.

Additional Financial Matters

Management's Discussion of Operations. The District's net revenues for the fiscal year ended April 30, 2002, were \$19.8 million compared to \$309.7 million for the previous year. The revenue decline this past year was due to several factors that impacted the District and the utility industry, including a price mitigation order by FERC, excess generation resources in the market place, consumer conservation and a general economic downturn. The District also adopted a new accounting standard in fiscal year 2002 that requires certain derivative instruments to be recorded at market value. The effect of adopting this new standard on net

revenues was a net loss of \$44.2 million. The District's net revenues would have been \$64.0 million before applying this new standard.

Operating revenues, which were influenced by the same factors as net revenues, were \$2.2 billion for fiscal year 2002, compared to \$3.0 billion for fiscal year 2001. Operating expenses were \$2.1 billion for fiscal year 2002, compared with \$2.6 billion for fiscal year 2001. The change between years in operating expenses is primarily attributed to reduced production costs, including purchased power and fuel. Also contributing to the decrease in operating expenses was an \$85 million expense resulting from a write-down in fiscal year 2001 by the District of its regulatory assets related to its implementation of direct access to its generation services. Financing costs decreased by 13 percent from the prior year.

Short-Term Promissory Notes and Credit Agreement Borrowings. The District's Board has authorized the issuance of up to \$525,000,000 in short-term promissory notes (the "Promissory Notes"). The Promissory Notes are being sold in the tax-exempt commercial paper market. The Promissory Notes mature no more than 270 days from the date of issuance. The Promissory Notes are issued in minimum denominations of \$100,000, in bearer or registered form without coupons, and bear interest from their date at an annual interest rate not in excess of 15%.

The District has two revolving credit agreements ("Agreements") which may be used to support the Promissory Notes. The indebtedness of the District evidenced by the Promissory Notes or borrowings under the Agreements are unsecured obligations of the District payable from the general funds of the District lawfully available therefor, subject in all respects to the prior lien of U.S. Government Loans, if any, Revenue Bonds and other indebtedness of the District secured by revenues or assets of the District. No specific revenues or assets of the District are pledged to the payment of the Promissory Notes or borrowings under the Agreements, and the Promissory Notes and such borrowings are not payable from taxes. Outstanding Promissory Notes and borrowings under the Agreements are accounted for by the District as long-term debt. At April 30, 2002 the District had no outstanding borrowings under the Agreements or prior credit agreements and had \$525,000,000 of the Promissory Notes outstanding. The District has limited the total amount of indebtedness which may be outstanding at one time under the Agreements, or any agreement in substitution or replacement therefor, and in the tax-exempt commercial paper market to an aggregate of \$525,000,000. However, the District has the right to issue commercial paper in excess of \$525,000,000 if it obtains an additional liquidity/credit facility equal to such additional commercial paper. The Agreements expire May 6, 2003, and the District is negotiating for their renewal or the acquisition of alternative credit facilities.

No Default. The District is not in default in the payment of the principal of or interest on any of its bonds, notes, or other debt obligations.

Outstanding Revenue Bond Indebtedness. As of April 30, 2002, the District had outstanding, net of current portion, approximately \$2,508,931,000 of Revenue Bonds. As part of the Recapitalization Plan, on August 14, 2002 the District defeased \$408,045,000 of its outstanding Revenue Bonds.

The following table shows total Debt Service Requirements immediately following the issuance of the 2002 Series B Bonds.

TABLE 10 — Total Debt Service Requirements(1)

<u>Year Ending April 30(1)</u>	<u>Principal Requirements on Outstanding Revenue Bonds</u>	<u>Interest Requirements on Outstanding Revenue Bonds</u>	<u>Total Debt Service Requirements</u>
2003	\$161,110,167	\$129,149,484	\$290,259,651
2004	244,701,800	134,636,232	379,338,032
2005	248,110,767	121,538,374	369,649,141
2006	238,377,333	106,753,782	345,131,115
2007	81,645,200	94,324,507	175,969,707
2008	106,309,400	97,126,809	203,436,209
2009	120,496,667	84,463,866	204,960,533
2010	98,226,667	77,722,535	175,949,201
2011	83,421,667	72,588,018	156,009,685
2012	69,256,667	68,343,539	137,600,205
2013	58,348,333	64,799,641	123,147,975
2014	59,448,333	61,775,183	121,223,516
2015	55,910,000	58,698,025	114,608,025
2016	42,058,333	55,804,606	97,862,940
2017	44,216,667	53,647,323	97,863,990
2018	50,583,333	51,360,588	101,943,921
2019	58,235,000	48,685,879	106,920,879
2020	52,213,333	45,648,846	97,862,179
2021	54,853,333	43,010,963	97,864,296
2022	57,616,667	40,246,888	97,863,554
2023	64,356,667	37,334,313	101,690,979
2024	63,758,333	34,101,588	97,859,921
2025	66,906,667	30,956,771	97,863,438
2026	70,310,000	27,552,148	97,862,148
2027	73,918,333	23,945,579	97,863,913
2028	77,651,667	20,210,825	97,862,492
2029	81,551,667	16,311,458	97,863,125
2030	85,636,667	12,227,342	97,864,008
2031	89,923,333	7,938,575	97,861,908
2032	74,326,667	3,530,517	77,857,183

(1) Totals may not add due to rounding.

(2) Debt Service amounts are for the years in which they accrue, not for the years in which they are paid, except for Capital Appreciation Bonds.

The following table shows the actual application of revenues and coverage of debt service requirements for fiscal years 1999, 2000, 2001 and 2002 and projections for fiscal years 2003 and 2004. The projected operating statistics are based on the financial plan reviewed by the Board on April 8, 2002 and certain assumptions that may not occur. Failure to realize such assumptions may adversely affect such projections.

TABLE 11 — Application of Revenues and Pro Forma Coverage of Debt Service Requirement
(\$000's)

	Fiscal Year Ended April 30					
	Actual				Projected	
	1999	2000	2001	2002(1)	2003	2004
Electric Revenues(2)	\$1,704,604	\$1,790,415	\$3,020,348	\$2,217,640	\$1,810,075	\$1,936,641
Operating Expenses(3)(4)	1,005,624	1,069,495	2,022,082	1,557,615	1,148,764	1,196,825
Revenues from Operations	698,980	720,920	998,266	660,025	661,311	739,816
Interest and Other Income (Net)	29,381	28,870	40,663	28,406	8,829	7,883
Revenues Available for Debt Service	728,361	749,790	1,038,929	688,431	670,140	747,699
Debt Service Requirements Revenue Bonds ...	227,309	223,501	220,132	222,862	304,955	418,058
Total Debt Service	227,309	223,501	220,132	222,862	304,955	418,058
Coverage of Total Debt Service by Revenues Available for Debt Service(5)	3.20	3.35	4.72	3.09	2.19	1.79
Balance after Debt Service	501,052	526,289	818,797	465,569	365,185	329,641
Plus: Interest on Construction Fund	4	0	0	1	7,329	0
Less: Contribution in Lieu of Taxes	69,890	63,271	56,048	59,617	61,712	76,833
Less: Contributions to Water Operations	42,987	40,924	47,469	32,219	43,000	39,412
Less: Falling Water Charges	4,122	5,361	4,090	9,397	7,332	7,407
Balance Available for Corporate Purposes	<u>\$ 384,057</u>	<u>\$ 416,733</u>	<u>\$ 711,190</u>	<u>\$ 364,337</u>	<u>\$ 260,470</u>	<u>\$ 205,989</u>
Potential Early Debt Redemptions	0	0	0	0	464,190(6)	150,000
Adjusted Balance Available for Corporate Purposes(7)	<u>\$ 384,057</u>	<u>\$ 416,733</u>	<u>\$ 711,190</u>	<u>\$ 364,337(4)</u>	<u>\$ (203,720)</u>	<u>\$ 55,989</u>

- (1) Includes inter-company sales.
- (2) Includes ad valorem taxes applicable to out-of-state properties owned by the District and payroll taxes. Excludes depreciation, voluntary contributions in lieu of taxes and inter-company charge for water for power and includes price increases.
- (3) Operating expenses include costs on an accrual basis for post-retirement medical benefits and demand charges related to the contract for Navajo Surplus.
- (4) May be reconciled with combined net revenues for 2002 (shown on page A4) as follows:

BALANCE AVAILABLE FOR CORPORATE PURPOSES.....	\$ 364,337,000
Bond principal repayment	86,180,000
Capitalized Interest	14,398,000
Amortization of regulatory assets	(139,367,000)
Depreciation and amortization	(272,495,000)
Fuel related depreciation (reflected in fuel costs)	(1,835,000)
Amortization of bond accretion	(862,000)
Amortization of bond discount, issuance, and refinancing expenses...	(1,732,000)
Desert Basin capital lease payment	15,371,000
Net revenues before impact of SFAS No. 133 implementation	63,995,000
Impact of SFAS No. 133 implementation	(44,199,000)
COMBINED NET REVENUES	<u>\$ 19,796,000</u>

- (5) Fiscal year 2004 projected Debt Service Coverage ("DSC") is lower than historical years and reflects the effects of the District's Recapitalization Plan that accelerates the retirement of certain Revenue Bonds. The completion of the Recapitalization Plan, as discussed in prior sections, will permit the District to achieve additional financing and operational flexibility to enhance its ability to compete if competition

In December 1999, FERC issued Order No. 2000, which, among other things, created a collaborative process for utilities to facilitate the creation of RTOs. FERC encouraged participation in RTOs by non-public utilities. See "THE ELECTRIC SYSTEM — Existing and Future Resources — Transmission" herein.

On July 31, 2002, FERC issued a Notice of Proposed Rulemaking (the "2002 NOPR") that proposes wide-ranging changes to the nation's wholesale energy market. Through the 2002 NOPR, FERC proposes to (i) mandate a standard market design ("SMD") which provides a framework for wholesale electric markets to remedy alleged discrimination in the use of the interstate transmission system; (ii) exercise jurisdiction over the transmission component of bundled retail transactions for FERC jurisdictional transmission owners; and (iii) establish a new form of universal transmission service to replace point-to-point and network services available pursuant to Order No. 888. The 2002 NOPR also proposes that all jurisdictional transmission owners and operators that have not yet joined an RTO must contract with an independent entity to operate their transmission facilities. Public comments are due to FERC by October 15, 2002 with the final order planned to be issued by FERC in the first quarter of 2003. Additionally, the 2002 NOPR proposes the continuation of the reciprocity requirement for non-jurisdictional utilities set forth in Order No. 888.

While the District is not directly subject to FERC jurisdiction, the District could be affected by the 2002 NOPR, depending on the final order. The District is unable to predict the outcome of this proposed rule making at this time.

Federal Legislation

Many bills have been introduced in the United States Congress to deregulate the electric utility industry on the federal or state level. Many of the bills provide for open competition in the furnishing of electricity to all retail customers (i.e. retail wheeling). In addition various bills have been introduced which would subject public power entities that own transmission facilities to regulation by FERC, and which would impact the issuance of tax-exempt bonds for transmission and generation facilities. The District is unable to predict whether any of these bills, or any similar federal bills proposed in the future, will become law, or, if they become law, what their final form or effect would be.

Competition in Arizona

The Electric Power Competition Act. In May 1998, the Arizona Legislature enacted the Competition Act, which applies to public power entities like the District. The Competition Act authorized competition in the retail sale of electric generation, recovery of stranded costs, and competition in billing, collection, metering and meter reading. The Competition Act allows a temporary surcharge on prices for electric distribution service to pay for all or a portion of unmitigated stranded costs of electric generation service that were incurred as a direct result of the onset of competition. Such costs must have been incurred prior to December 26, 1996 to serve customers in Arizona, and must not cause prices to exceed the prices that were in effect on December 30, 1998. The District fully complies with the Competition Act. The District expects that the Arizona Legislature may reconsider details of the Competition Act in its 2003 session.

The Arizona Corporation Commission. The ACC regulates investor-owned utilities, called public service corporations in Arizona. The Arizona Legislature in the Competition Act directed the ACC to adopt rules for competition similar to what the Arizona Legislature had enacted for public power entities.

In 1999, the ACC issued rules for retail electric competition, which allowed customers to be eligible for competitive electric service based on certain phased-in schedules set by the ACC. The rules and other aspects of competition by investor-owned utilities are being challenged in the courts, and the ACC is reexamining its electric competition rules and actions related thereto in order to determine whether changed circumstances require it to amend its policy of competitive retail electric markets.

California Energy Crisis

In 1996, California adopted a restructuring program for its electric utility industry that required, among other conditions, generation divestiture, reliance on wholesale spot markets, and rigid retail price controls.

does develop in this industry. The District expects the DSC to return to higher levels beginning in fiscal year 2006.

- (6) On August 14, 2002 the District defeased \$408,045,000 of Revenue Bonds with Available General Fund monies.
- (7) The District will fund potential early debt redemptions from balances available for corporate purposes and available General Fund monies.

CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

General

The electric utility industry in general has been, and in the future may be, affected by a number of factors which could impact upon the business affairs, financial condition and competitiveness of an electric utility and the level of utilization of its generating facilities, such as those of the District. One of the most significant of these factors is the effort on national and local levels to restructure the electric utility industry from a heavily regulated monopoly to an industry in which there is open competition for power supply on both the wholesale and retail level. Although recent efforts for open competition at the retail level have been limited, there is still interest by the larger industrial customers for open competition. For a description of the competition in the electric utility industry in Arizona and the response of the District thereto, see "Competition in Arizona" and "District's Response to Utility Industry Developments" herein.

In addition, such factors include, among others, (i) effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements, (ii) changes resulting from conservation and demand-side management programs on the timing and use of electric energy, (iii) changes that might result from a national energy policy, (iv) increased competition from independent power producers (v) "self-generation" by certain industrial and commercial customers, (vi) issues relating to the ability to issue tax-exempt obligations, (vii) severe restrictions on the ability to sell to nongovernmental entities electricity from generation projects financed with outstanding tax-exempt obligations, (viii) changes from projected future electricity requirements, (ix) increases in costs, (x) shifts in the availability and relative costs of different fuels; and (xi) effects of the financial difficulties confronting the power marketers. Any of these factors (as well as other factors) could have an effect on the financial condition of any given electric utility and likely will affect individual utilities in different ways.

The District cannot predict what effects these factors will have on its business, operations and financial condition, but the effects could be significant. The following is a brief discussion of certain of these factors. However, this discussion does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date of this Official Statement. Extensive information on the electric utility industry is, and will be, available from sources in the public domain, and potential purchasers of the securities of the District should obtain and review such information.

Certain FERC Initiatives

In 1996, FERC, which regulates the electric utility industry under the authority of various statutes, issued rules effecting significant changes in the regulation of transmission services provided by "public utilities" (as defined in the Federal Power Act), which own, operate or control interstate transmission facilities used to transmit power in interstate commerce. The rules require public utilities to provide nondiscriminatory transmission services to entities seeking to effect wholesale power transactions, and to grant equal access to information concerning the pricing and availability of transmission services. The District is not a public utility under the Federal Power Act. FERC has applied the principles set forth in these rules to consumer-owned and other non-public utilities, by requiring such utilities to agree to provide open-access transmission service as a condition to securing transmission service from public utilities under open-access tariffs. See "District's Response to Utility Industry Developments" herein.

California opened 100% of the service territories of investor-owned utilities to retail competition on March 31, 1998. During the year 2000 and the first two quarters of 2001 energy prices in California skyrocketed and resulted in severe economic hardship for several utilities. The outcome was a dysfunctional energy market, exponentially high wholesale prices, the bankruptcy of California's largest investor-owned utility (Pacific Gas and Electric Company ("PG&E")) and blackouts caused by inadequate resources to serve customers.

As a result of the high prices for electricity in California, FERC imposed price caps in June 2001 for power sold at wholesale not only in California but elsewhere in the West. Wholesale prices fell dramatically. The caps are scheduled to expire on September 30, 2002, but FERC has ordered a new cap for all power sales in the western United States as well as automatic procedures to mitigate the effects of any participant exerting market power in California.

The District has close ties to the California energy market due to its sales and purchases of wholesale energy, the activities of New West Energy in marketing energy services in California, and the role of Southern California Edison Company ("SCE") as operator of the Mohave Generating Station and as a participant in other jointly-owned facilities with the District. Consequently, the District has closely monitored developments in California, and developed a response to the California situation and its immediate fallout (see discussion below). However, the District cannot predict with certainty the impact that any future resolution, or attempted resolution, of the California energy crisis, or the impact of credit difficulties, may have on it. See "District's Response to Utility Industry Developments" herein.

Power Exchange Energy Credits. In California from April 1998 through March 2002, state law required that utility distribution companies ("UDCs") freeze their retail rates at 1996 levels. This effectively provided retail customers in their service territories a guarantee of a fixed retail price. This guarantee applied to all distribution customers, whether or not the customer received energy from the UDC. When a competitive energy provider ("electric service provider" or "ESP") provided generation to a UDC's distribution customer, the UDC became obligated, in most cases to the ESP, for a credit equal to the price for energy that the UDC was paying at the California Power Exchange ("PX"). This credit was known as the PX Energy Credit.

Starting in the summer of 2000, wholesale prices increased significantly to levels above the maximum retail rates set for UDCs by the California Public Utility Commission ("CPUC"). This created significant PX Energy Credits, which ultimately SCE and PG&E ceased paying. When New West Energy returned its energy service customers to SCE and PG&E in December 2000, both SCE and PG&E owed PX Energy Credits to New West Energy. New West Energy assigned its PX Energy Credits to the District.

As a result of a settlement with the CPUC, SCE is recovering from its customers a substantial portion of its accumulated debts. SCE has paid with interest all PX Energy Credits owed to NWE and thus to the District. The plans of reorganization filed in the PG&E bankruptcy proceeding propose to pay 100% of any allowed claim. However, PG&E is disputing the amount of the PX Energy Credit claims, and has asserted to the bankruptcy court that claims should be disallowed in their entirety. It is uncertain when or if payment of the PX Energy Credits will be made.

District's Response to Utility Industry Developments

Federal and State Deregulation. In response to FERC's open access rules, the District filed a comparable open access transmission tariff in order to ensure reciprocal access to the transmission systems of public utilities. The District was one of the first public power utilities to make such a filing and did so pursuant to rules that FERC had developed for non-jurisdictional entities like the District. The District is also participating in the development of a regional transmission organization for the Southwest. See "THE ELECTRIC SYSTEM — Existing and Future Resources — Transmission."

Soon after the passage of the Competition Act, the District, in August and December 1998, adopted resolutions to open 20% of the District's 1995 retail load to competition for the retail sale of electric generation effective December 31, 1998. Customers who elected competitive electric generation could also choose billing, collection, metering and meter reading services on a competitive basis if their demand exceeded one megawatt. On June 1, 2000, seven months ahead of schedule, the District opened its entire service area to

generation competition by electricity suppliers who had been approved by the ACC. The entire service area was opened to competition in billing, collection, metering and meter reading beginning December 31, 2000. However, currently no customer of the District has a generation supplier or supplier of other competitive services (billing, collection, metering or meter reading) other than the District.

Also effective December 31, 1998, the District introduced unbundled pricing plans. For retail customers who were unable or unwilling to choose competitive electric generation, prices reflected a decrease of at least 10% over a 10-year period, apportioned among customer classes.

The Competition Act permitted public power entities to recover their stranded costs. In connection with its 1998 resolutions, the District elected to recover its stranded costs and authorized a non-by-passable CTC not to exceed \$795 million. In addition, surcharges to the District's distribution customers recover the costs of programs that benefit the general public, such as discounted prices for the elderly or impoverished, renewable energy programs, research and development, and nuclear decommissioning, including the cost of storage of spent nuclear fuel. These surcharges are separately identified in the District's price plans. On June 4, 2001, the District determined that the CTC should cease to be collected effective June 1, 2004 or when the \$795 million has been collected, whichever occurs first. The District reviewed the CTC as part of a public process in the Fall of 2001 and no change to the CTC was made. Having already met the statutory 10% rate reduction requirement, the District will not be subject to retail price caps at such time as the CTC is eliminated.

Differences between California and Arizona. Although California has taken steps to correct the structural defects inherent in its restructuring legislation, Arizona, and in particular the Competition Act, has been virtually free of these problems.

The California restructuring legislation required utilities to divest themselves of generation. The Competition Act did not require public power entities to divest their generation or transmission assets. Hence the District has remained vertically integrated, and the ACC is considering delaying those portions of its rules which require divestiture.

In California, distribution companies had been prohibited from entering into long-term and forward contracts for the purchase of power. They had to buy all their power requirements from the PX, a day-ahead and real-time power pool, essentially a spot market that subjected the distribution companies to the vagaries of a spot market — high and volatile prices. Unlike California, distribution companies in Arizona have always been able to use both long-term and forward contracts as appropriate to obtain lower wholesale prices, reduce price volatility, and hedge their risks.

Another difference between California and Arizona is the supply and demand situation, which is better in Arizona than in California. Arizona utilities, including the District, continue to invest and build infrastructure assets, such as generation and transmission resources. The siting process in California was also undermined by a general regulatory perception that more plants were unnecessary. Additionally, the uncertainty of eventual plant ownership, and the recovery of stranded costs as the end result of the restructuring process begun in 1996, deferred many projects as investors and generators waited to see how matters would be resolved in California. See "THE ELECTRIC SYSTEM — Projected Peak Loads and Resources" herein.

Strengths of the District/Competitive Business Strategy. The District has several strengths as well as a competitive business strategy, which positions it well to deal with the effects of the restructuring of the utility industry.

The District has retained its existing vertically integrated infrastructure; it has retained 100% of its existing generation assets and is developing additional resources to keep up with its load growth. The fuel sources for existing generation are diversified, and planned additions include coal as well as gas resources. See "THE ELECTRIC SYSTEM — Existing and Future Resources" and "THE ELECTRIC SYSTEM — Projected Peak Loads and Resources" herein.

The District has taken steps to prepare for increased competition in the utility industry for well over a decade. These results have been achieved through initiatives that included extensive debt refinancing, renegotiation of fuel supply agreements, staff reductions, implementation of numerous operating efficiencies

and enhancing services provided to the District's customers. The District also has a diversified customer base and no single customer provides more than 2.9% of its operating revenues. See "SELECTED OPERATIONAL AND FINANCIAL DATA — Customers, Sales, Revenues and Expenses" herein.

The District is regulated by an independent, publicly-elected Board of Directors who approve its capital budgets and electric price structure. Together the Board and management have developed various initiatives in response to the restructuring in California and Arizona. See "THE DISTRICT — Organization, Management and Employees" herein.

The District has conducted studies, which have shown that customers with high loyalty rates are less likely to select another generation provider. Consequently, the District has implemented projects and programs geared towards enhancing "customer loyalty" by offering them a range of pricing and service options. Moreover, the District has reduced retail prices and is one of the low-cost price leaders in the Southwest. The District received the J.D. Powers Award in 1999, 2000 and 2002 for the highest score for residential customer satisfaction in the West.

Energy Risk Management Program. The cornerstone of the District's risk management approach is its mission to serve its retail customers. This means that the District builds or acquires resources to serve retail customers, not the wholesale market. The District has an Energy Risk Management Program to limit exposure to risks inherent in normal energy business operations by measuring and minimizing exposure to price risks, credit risks, and control risks. Specific goals of the program include reducing the impact of market fluctuations on energy commodity prices associated with customer energy requirements, excess generation and fuel expenses; meeting customer pricing needs; and maximizing the value of physical generating assets. To meet the goals of the Energy Risk Management Program, the District uses various physical and financial instruments, including forward contracts, futures, swaps, and options. Certain of these transactions are accounted for under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended ("SFAS No. 133"). Under SFAS No. 133, derivative instruments are recorded in the balance sheet as either an asset or liability measured at their fair value. The standard also requires that changes in the fair value of the derivative be recognized each period in current earnings or other comprehensive income depending on the purpose for using the derivative and/or its qualification, designation and effectiveness as a hedging transaction. Most of the District's contractual agreements qualify for the normal purchases and sales exception allowed under SFAS No. 133 and are not recorded at market value.

The Energy Risk Management Program is managed according to a policy approved by the Board. The policy covers areas such as strategies, specific price and control risk issues, and credit policy that the District applies to its wholesale counterparties. The credit policy provides for continuous monitoring of credit exposures, routine assessment of the financial strength of its counterparties, and minimization of credit risk by dealing primarily with creditworthy counterparties, and by requiring letters of credit, parent guarantees or other collateral when the financial strength of a counterparty is not considered sufficient. In addition, the District has established a credit reserve for its activity in wholesale markets.

During the past year, the financial stability and creditworthiness of some major participants in the wholesale energy markets has deteriorated. The District believes that its existing wholesale credit policies and procedures are appropriate and that its exposures are adequately covered by existing reserves.

Environmental

Electric utilities are subject to continuing environmental regulation. Federal, state and local standards and procedures that regulate the environmental impact of electric utilities are subject to change. These changes may arise from continuing legislative, regulatory and judicial action regarding such standards and procedures. Consequently, there is no assurance that facilities owned by the District will remain subject to the regulations currently in effect, will always be in compliance with future regulations, or will always be able to obtain all required operating permits. An inability to comply with environmental standards could result in additional capital expenditures to comply, reduced operating levels, or the complete shutdown of individual electric generating units not in compliance.

Congress is considering new legislation as a part of the CAA that may impact all power plants directly. Regulation of electric utility emissions is likely to change significantly under the legislation being considered. The EPA, the State of Arizona, and local jurisdictions would issue new regulations to implement any new legislation. The changes could affect the cost of generating and purchasing power. If any such regulations are enacted, the existing cost assumptions for electric utilities may change. While it is too early to determine what new regulations may be enacted, in what form, or what their effect will be, the changes may have a material impact on the cost of power generated at affected generating units.

The EPA is developing regulations for the control of mercury emissions from coal and oil-fired utility boilers. Regulations are scheduled to be proposed in late 2003 with a compliance date of late 2007. These regulations will affect all new and existing units. The EPA has not yet determined the level of control that will be required. This rule could affect the District's coal-fired units and the District is still uncertain of the impact, which could range from no change to the installation of new emission controls.

President Bush recently proposed a Clear Skies Initiative (CSI) intended to achieve dramatic reductions of sulfur dioxide, oxides of nitrogen and mercury emissions in a coordinated and phased manner. The administration expects that the CSI will result in substantial power plant emission reductions and provide the electric power generation industry with regulatory certainty while maintaining fuel supply diversity. A number of other bills are also under consideration in Congress that call for significant reductions in sulfur dioxide, nitrogen and mercury as well as carbon dioxide. The current CAA contains several provisions that are directed at emissions of sulfur dioxide, nitrogen and mercury. The District is planning on future emission reductions at its coal-fired power plants as a result of these legislative and regulatory initiatives. The specific level of reduction and compliance cost will not be known until new legislation is passed or the EPA and the states finalize existing regulatory programs under the CAA.

Nuclear Plant Matters

In accordance with the Nuclear Waste Policy Act of 1982, APS contracted with the United States Department of Energy ("DOE") for waste and spent fuel disposal services. DOE was to have initiated these services by January 1998. Because of the significant delays in DOE's schedule, it is unlikely that APS will be able to initiate shipments to DOE during the licensed life of the PVNGS. Accordingly, APS is constructing an on-site dry cask storage facility to receive and store PVNGS spent fuel that is sufficient to provide storage for all three units for a 40-year operating life. The facility is expected to receive and store spent fuel by the end of 2002.

The Nuclear Regulatory Commission ("NRC") has adopted decommissioning rules which require reactor operators to certify that sufficient funds will be available for decommissioning the contaminated portion of nuclear plants in the form of prepayments or external sinking funds, either of which must be segregated from the licensee's assets and outside its administrative control, or by the surety of insurance payable to a trust established for decommissioning costs. The District is collecting funds through its price plans to decommission its share of PVNGS Units 1, 2 and 3. The District projects that it will accumulate \$271.8 million in 1998 dollars over the life of PVNGS for this purpose. The decommissioning funds are maintained in an external trust in compliance with NRC regulations. The District anticipates being able to continue to collect decommissioning funds in a competitive generation market.

Security Matters

Following the tragic events at the World Trade Center in New York on September 11, 2001, increased emphasis has been placed on addressing security measures for infrastructure systems and facilities throughout the United States. In response, the District has placed its operations on highest alert and has taken security measures beyond those normally in effect to protect its Electric System and other assets.

Summary

As discussed above, the electric utility industry is experiencing problems in a number of areas. The District is unable to predict the extent to which its construction programs and operations will be affected by

such factors, but they could result in incurrence of substantial additional costs and could adversely affect its revenues.

LITIGATION

At the time of delivery of and payment for the 2002 Series B Bonds, the law firm of Jennings, Strouss & Salmon, P.L.C., Phoenix, Arizona, legal advisors to the District, will deliver a no-litigation opinion stating substantially that, no litigation is now pending or, to its knowledge threatened, affecting or questioning the organization of the District or the titles or manner of election of the officers or directors of the District to their terms of office, respectively; and no litigation is now pending or, to its knowledge threatened, affecting or questioning the power and authority of the District to issue, execute and deliver the Bonds or the pledge or application of any moneys or security provided for the payment thereof.

In the normal course of business the District is a defendant in various legal actions. In management's opinion, except as otherwise noted below, the ultimate resolution of these matters would not have a significant adverse effect on the District's financial position or operations.

Environmental Issues

Endangered Species Act. At Roosevelt Dam, the southwestern willow flycatcher, an endangered species of bird, has taken up summer nesting within the habitat in the lakebed of the reservoir. The habitat that the birds are using developed when the level of water in the reservoir became and stayed low in the last several years because of below-normal runoff. Future full operation of the reservoir means that the level of water in the reservoir would flood the habitat, which is prohibited under the Endangered Species Act ("ESA"). Therefore, in order to store and deliver the water supply to the Project, the Association, as agent of the District, has developed with the United States Fish and Wildlife Service a Habitat Conservation Plan (the "Plan"), which would allow full operation of the reservoir. The goal of the Plan is to protect the southwestern willow flycatcher by mitigating harmful impacts to the species, most likely by the establishment of another habitat in another area. The District has reserved funds, which it believes will be sufficient to implement the Plan. The District is evaluating the potential for ESA compliance at other reservoirs as well.

Navajo Environmental Laws. In 1995, the District, on behalf of the Navajo Generating Station Participants, filed a lawsuit in the Navajo Nation Tribal Court against the Navajo Nation, its Environmental Protection Agency and the Agency's Director as a result of the defendants' attempts to apply three of the Navajo Nation's environmental laws against NGS and the NGS Participants. These laws are the Navajo Nation Air Pollution Prevention and Control Act, the Navajo Nation Safe Drinking Water Act, and the Navajo Nation Pesticide Act. The District contends that the application of these laws to NGS and the NGS Participants is precluded by the NGS Plant Site Lease, the Section 323 Grants by the United States for the NGS Plant Site and Railroad, and federal law. APS, on behalf of the Four Corners Participants, filed a lawsuit challenging the same laws on similar grounds. Both actions have been served on the defendants; however, all parties have agreed to stay the litigation so settlement discussions may occur.

In July, 2000, the District filed a separate action in the Navajo Nation Supreme Court, requesting that the Court review final regulations that were issued by the Navajo Nation Environmental Protection Agency pursuant to the Navajo Air Quality Statute. APS filed a similar petition in a separate action with the Navajo Nation Supreme Court. The District, APS, and the Navajo Nation have filed a stipulation to stay these proceedings under the same terms as the stay in the actions regarding the laws. The Court has approved the stays and settlement discussions are continuing.

Water Rights

Gila River Adjudication. The District and the Association are parties to a state water rights adjudication proceeding encompassing the entire Gila River System (the "Gila River Adjudication"). This proceeding is pending in the Superior Court for the State of Arizona, Maricopa County, and will eventually result in the

determination of all conflicting rights to water from the Gila River and its tributaries, including the Salt and Verde Rivers.

Gila River Indian Community. The United States on behalf of the Gila River Indian Community ("GRI Community") filed a lawsuit in 1982 in the Federal District Court, District of Arizona, to protect the water right claims of the GRI Community. The Association is among the many defendants named in this lawsuit. The lawsuit claims that the defendants' use of surface water and groundwater violates the GRI Community's rights to water in certain specified areas, and requests a decree specifying the GRI Community's rights, injunctive relief to stop the alleged illegal use of water by the defendants, and damages for increased costs to the GRI Community from, among other things, having to deepen its wells. This lawsuit has been stayed pending the outcome of the Gila River Adjudication.

Little Colorado River Adjudication. In 1978, a water rights adjudication was initiated in the Apache County Superior Court with regard to the Little Colorado River System. The District has filed its claim to water rights in this proceeding, which includes a claim for groundwater being used in the operation of CGS. The District is unable to predict the ultimate outcome of this proceeding, but believes an adequate water supply for CGS will remain available.

Coal Supply

Navajo Nation Lawsuit. In June 1999, the Navajo Nation filed a lawsuit in the United States District Court in Washington D.C., alleging that the coal supplier for the Navajo and Mohave Generating Stations ("Peabody"), SCE, the District, and other defendants, had induced the United States to breach its fiduciary duty to the Navajo Nation, and had violated federal racketeering statutes. The lawsuit arises out of negotiations that culminated in 1987 with amendments to the coal royalty and lease agreements for mining coal for the Navajo and Mohave Generating Stations. The suit alleges \$600 million in damages and seeks treble damages along with punitive damages of not less than \$1 billion. In March, 2001, the Hopi Tribe intervened in the suit. However, the claims of both the Navajo Nation and the Hopi Tribe were dismissed in their entirety with respect to the District. The Navajo Nation and Hopi Tribe may appeal the dismissals.

Previously, the Navajo Nation had filed a lawsuit against the United States Government based on similar allegations. That lawsuit had been dismissed, but on appeal, it was reinstated and the Court of Appeals, in August 2001, held that the United States had breached its fiduciary duty to the Navajo Nation, and that a claim for damages was within the jurisdiction of the Court of Federal Claims. The United States Supreme Court will hear this case during its next term. Peabody claims it is entitled to reimbursement under the coal supply agreements for its costs associated with both lawsuits as well as for additional costs if the coal royalty rate under the coal leases was retroactively raised above the current rate.

The District is unable to predict the likely outcome of these matters at this time.

Navajo Generating Station Five-Year Price Review. The coal supply agreement for NGS provides for a review of the sale price of coal at five-year intervals. In 1997, the Navajo Participants and Peabody initiated a review covering the period 1992-1996. Following extended unsuccessful negotiations, the parties submitted the matter to arbitration in 2000. In 2002 the arbitration panel ruled in favor of Peabody and revised coal prices were implemented for the period beginning January 1997. The cost of additional payments for the 1997-2002 period for the Navajo Participants is approximately \$30 million. The District's share of these payments is estimated to be approximately \$15 million.

The District, on behalf of the NGS Participants, has initiated a price review for the period 1997-2001 as well. The District and Peabody have just begun their preliminary audits and neither party has called for arbitration. It is too early to predict the likely outcome of this review.

Final Reclamation and Retiree Medical Benefits. The agreements for the coal supplies for the Mohave Generating Station and NGS are scheduled to expire in 2005 and 2011, respectively, subject to the rights of the participants in the Mohave Generating Station and NGS to extend the agreements. The coal supplier, Peabody, has advised the District that upon expiration of the initial or extended terms, Peabody intends to stop mining coal at the Black Mesa and Kayenta Mines and to start final reclamation work as required by law.

Peabody contends that the owners of the Mohave Generating Station and NGS are liable for the final reclamation work and for retiree health care benefits for employees at the two mines, even after cessation of mining operations.

In June 2002, Peabody and the Mohave Participants participated in mediation of the issue of final reclamation and retiree medical benefits through which a settlement was reached. The Mohave Participants agreed to pay to Peabody approximately \$45.7 million, including royalties, taxes and interest. The payment will be paid monthly from January 2003 through December 2005. The District's share of this liability totals approximately \$9.1 million.

The NGS Participants continue to dispute their alleged liability to Peabody for these costs which according to Peabody estimates, total approximately \$54 million for the Navajo Project. Negotiations to resolve the disputes have been unsuccessful and the NGS Participants and Peabody are litigating and arbitrating the disputes. If the NGS Participants are found liable for these expenses, Peabody will seek either to establish an escrow account to be funded immediately, or to spread the funding over the remaining term of the coal supply agreement. The actual expenses for reclamation will run for 15 to 20 years after mining ceases, and the actual retiree health care costs are projected to continue for decades.

Natural Gas Supply

The District has a full requirements natural gas transportation contract with El Paso. This contract is under challenge at the FERC from producers and marketers who are unhappy with the uncertainty of their deliveries on the El Paso System. On May 31, 2002, FERC ordered the conversion of El Paso's full requirements customers to fixed amounts effective November 1, 2002. FERC offered no suggestions as to how the fixed amounts for full requirements customers should be determined, leaving it to El Paso and the impacted customers to settle the issue. On August 1, 2002, El Paso filed a required status report with FERC indicating that the parties had been unable to reach a settlement. FERC has stated in its May 31st order that if the parties were unable to settle the issue, it would determine the appropriate contract entitlements for full requirements customers itself. The District and other full requirements customers have filed a motion for rehearing in the matter. Pending a settlement with El Paso on the District's contract entitlements or a determination by FERC, the financial impact of FERC's May 31st order cannot be determined, but it could be significant. See "ELECTRIC SYSTEM — Existing and Future Resources — Fuel Supply" for a discussion of fuel supply issues.

Nuclear Fuel Supply

The Energy Policy Act provides, among other things, that utilities with nuclear reactors will contribute an aggregate total of \$150 million annually, based upon an assessment, for a period of 15 years, up to a total of \$2.25 billion (in 1992 dollars), for the costs of the decommissioning and decontamination ("D&D") of the DOE nuclear fuel enrichment facilities.

In 1996, APS, on behalf of the PVNGS Participants, filed a claim in the United States Claims Court requesting a refund of the special assessments that the PVNGS Participants have paid (and continue to pay) into the D&D Fund, on the basis that the D&D Fund constitutes an improper retroactive price increase under the uranium enrichment contract. Twenty-seven other nuclear utilities also filed refund claims against the United States Government. In 1998, APS and 15 other utilities filed suit in the U.S. District Court challenging the constitutionality of the fees. In July 2002, APS and other utilities agreed to voluntarily dismiss their claims based on an adverse ruling against another utility on the same issues and the U.S. Supreme Court's denial of certiorari in the matter. To date, the PVNGS Participants have paid approximately \$34 million, and for the entire fifteen-year period, it is estimated that \$55 million will ultimately be paid into the D&D Fund. The District's share will amount to approximately \$9.6 million, which will be expensed over a fifteen-year period and recovered through its price plans.

California Energy Market Litigation and Investigations

A number of lawsuits have been filed concerning various aspects of the California energy market. In addition, the State of California and federal authorities are conducting investigations and other proceedings concerning various aspects of the energy situation. Several of these investigations focus on the involvement of Enron in allegedly manipulating the market. Because the District bought and sold power into the California energy market, the District has been drawn into many of the proceedings. However, the District was a net buyer in the California market during the time periods being scrutinized.

The State of California and others have filed various claims, alleging antitrust violations, which have now been consolidated, against many of the power suppliers to California. Two of the suppliers who were named as defendants in those matters filed cross-claims against about 30 other participants in the California energy markets, including the District, in an attempt to expand those claims to such other participants. The District is seeking to have the cross-claims dismissed and believes that the claims, as they relate to the District, are without merit.

There are two proceedings at FERC concerning potential refunds for spot market transactions in California and in the Pacific Northwest as a result of the disturbances in the California market. The District is a party to both proceedings. It is too early to tell whether FERC will order refunds in either proceeding, the amounts of any refunds, or whether FERC's orders will stand on appeal. However, the District was a net buyer in the California and Pacific Northwest markets. The District believes that the resolution of these proceedings will not have a material adverse impact on its finances, and may have a positive impact.

LEGALITY OF REVENUE BONDS FOR INVESTMENT

Under the Act, the 2002 Series B Bonds constitute legal investments for savings banks, banks, savings and loan associations, trust companies, executors, administrators, trustees, guardians and other fiduciaries in the State of Arizona and for any board, body, agency or instrumentality of the State of Arizona, or of any county, municipality or other political subdivision of the State of Arizona, and constitute securities which may be deposited by banks, savings and loan associations or trust companies as security for deposits of state, county, municipal and other public funds.

UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase all, but not less than all, of the 2002 Series B Bonds from the District at an aggregate purchase price, of \$576,855,654.20 reflecting net original issue premium of \$6,855,654.20, and an underwriters' discount of \$3,070,628.55 from the initial public offering prices set forth on the inside cover page of this Official Statement.

TAX MATTERS

Exclusion of Interest on the 2002 Series B Bonds from Gross Income for Federal Tax Purposes

The Internal Revenue Code of 1986, as amended (the "Code") imposes certain requirements that must be met on a continuing basis subsequent to the issuance of the 2002 Series B Bonds in order to assure that interest on the 2002 Series B Bonds will be excluded from gross income for federal income tax purposes under Section 103 of the Code. Failure of the District to comply with such requirements may cause interest on the 2002 Series B Bonds to be included in gross income for federal income tax purposes, retroactive to the date of issuance of the 2002 Series B Bonds. The District has covenanted to comply with the provisions of the Code applicable to the 2002 Series B Bonds and has covenanted not to take any action or permit any action that would cause the interest on the 2002 Series B Bonds to be included in gross income under Section 103 of the Code or cause interest on the 2002 Series B Bonds to be an item of tax preference under Section 57 of the Code.

Assuming the District complies with the tax covenants described above, McCarter & English, LLP, Bond Counsel to the District, is of the opinion that, under existing law, interest on the 2002 Series B Bonds is excluded from the gross income of the owners of the 2002 Series B Bonds for federal income tax purposes pursuant to Section 103 of the Code and interest on the 2002 Series B Bonds is not an item of tax preference under Section 57 of the Code for purposes of computing alternative minimum tax.

The initial public offering price of the 2002 Series B Bonds maturing January 1, 2016, January 1, 2024 and January 1, 2032 is less than the principal amount payable on such 2002 Series B Bonds at maturity. The difference between the initial public offering price at which a substantial amount of such 2002 Series B Bonds was sold and the principal amount payable at maturity of such 2002 Series B Bonds constitutes original issue discount. Bond Counsel is of the opinion that the appropriate portion of the original issue discount allocable to the original and each subsequent owner of such 2002 Series B Bonds will be treated for federal income tax purposes as interest not includable in gross income under Section 103 of the Code to the same extent as stated interest on the 2002 Series B Bonds.

Under Section 1288 of the Code, original issue discount on such 2002 Series B Bonds accrues on the basis of economic accrual. The basis of an initial purchaser of a 2002 Series B Bond acquired at the initial public offering price of the 2002 Series B Bond will be increased by the amount of such accrued discount.

Owners of the 2002 Series B Bonds should consult their personal tax advisors with respect to the determination for federal income tax purposes of the original issue discount properly accruable with respect to the 2002 Series B Bonds and the tax accounting treatment of accrued interest.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the 2002 Series B Bonds may affect the tax status of interest on the 2002 Series B Bonds. No assurance can be given that future legislation enacted or proposed after the date of issuance of the 2002 Series B Bonds will not have an adverse effect on the tax-exempt status or market price of the 2002 Series B Bonds. Furthermore, Bond Counsel expresses no opinion as to any federal, state or local tax law consequences with respect to the 2002 Series B Bonds, or the interest thereon, if any action is taken with respect to such Bonds or the proceeds thereof upon the advice or approval of counsel other than McCarter & English, LLP.

Additional Federal Income Tax Consequences

In the case of certain corporate holders of the 2002 Series B Bonds, interest on the 2002 Series B Bonds will be included in the calculation of the alternative minimum tax as a result of the inclusion of interest on the 2002 Series B Bonds in "adjusted current earnings" of certain corporations.

Prospective purchasers of the 2002 Series B Bonds should be aware that ownership of, accrual or receipt of interest on or disposition of tax-exempt obligations, such as the 2002 Series B Bonds, may have additional federal income tax consequences for certain taxpayers, including, without limitation, taxpayers eligible for the earned income credit, recipients of certain Social Security and certain Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, financial institutions, property and casualty companies, foreign corporations and certain S corporations.

Bond Counsel expresses no opinion regarding any federal tax consequences other than its opinion with regard to the exclusion of interest on the 2002 Series B Bonds from gross income pursuant to Section 103 of the Code and interest on the 2002 Series B Bonds not constituting an item of tax preference under Section 57 of the Code. Prospective purchasers of the 2002 Series B Bonds should consult their tax advisors with respect to all other tax consequences (including, but not limited to, those listed above) of holding the 2002 Series B Bonds.

State Taxation

Bond Counsel is of the opinion that, under existing law, interest on the 2002 Series B Bonds is exempt from income taxes imposed by the State of Arizona.

APPROVAL OF LEGAL MATTERS

Legal matters incident to the authorization and issuance of the 2002 Series B Bonds are subject to the approval of McCarter & English, LLP, Bond Counsel, whose final approving opinion will be delivered with the 2002 Series B Bonds in substantially the form attached hereto as Appendix E. Certain legal matters in connection with the 2002 Series B Bonds will be passed upon for the District by Jennings, Strouss & Salmon, P.L.C. Certain legal matters will be passed upon for the Underwriters by Winston & Strawn, counsel to the Underwriters.

RATINGS

Standard & Poor's Corporation and Moody's Investor Service have given the ratings of AA and Aa2, respectively, to the 2002 Series B Bonds. Such ratings reflect only the view of such organizations, and an explanation of the significance of such rating may be obtained only from the respective rating agency. There is no assurance that such ratings will be maintained for any given period of time, or that they will not be revised downward, or be withdrawn entirely by the respective rating agency if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2002 Series B Bonds.

CONTINUING DISCLOSURE

Pursuant to the Continuing Disclosure Agreement, the District will covenant for the benefit of the holders and Beneficial Owners of the 2002 Series B Bonds to provide certain financial information and operating data relating to the District by not later than 180 days after the end of each of the District's fiscal years (presently, each April 30), commencing with the fiscal year ending April 30, 2003 (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events with respect to the 2002 Series B Bonds, if material. The Continuing Disclosure Agreement provides that the Annual Report and any notices of such material events will be filed by or on behalf of the District with each nationally recognized municipal securities information repository and with the information repository, if any, established by the State of Arizona. Under the Continuing Disclosure Agreement, the sole remedy for any Bondholder upon an event of default is a lawsuit for specific performance in a court of competent jurisdiction. See "Appendix F — Form of Continuing Disclosure Agreement".

The District's covenant is being made in order to assist the Underwriters in complying with the secondary market disclosure requirements of Rule 15(c)2-12 of the Securities and Exchange Commission (the "Rule"). The District has never failed to comply in any material respect with any previous undertaking with regard to the Rule to provide annual reports or notices of material events.

INDEPENDENT PUBLIC ACCOUNTANTS

The financial statements, as of April 30, 2002 and April 30, 2001 and for the years then ended, are included in this Official Statement. The 2002 financial statements have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing herein.

The financial statements for 2001 were audited by Arthur Andersen, LLP, whose report expressed an unqualified opinion on those statements.

The prospective financial information included in this Official Statement has been prepared by, and is the responsibility of, the District's management. PricewaterhouseCoopers LLP has neither examined nor compiled the accompanying prospective financial information and, accordingly, PricewaterhouseCoopers LLP does not express an opinion or any other form of assurance with respect thereto. The PricewaterhouseCoopers LLP report included in this Official Statement relates to the District's historical financial information. It does not extend to the prospective financial information and should not be read to do so.

FINANCIAL ADVISOR

The District has retained Lazard Frères & Co., LLC ("Lazard") as its financial advisor. Although Lazard has assisted in the preparation of this Official Statement, Lazard is not obligated to undertake and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

OTHER AVAILABLE INFORMATION

The District prepares an annual report with respect to each fiscal year ending April 30, which typically becomes available in September of the following fiscal year. The annual report includes information relating to District members, staff, legal and financial services, operations and audited financial statements for the fiscal year ending April 30.

The annual report with audited financial statements for the year ended April 30, 2002 is available. Copies of the annual report and audited financial statements may be obtained by writing to Salt River Project Agricultural Improvement and Power District, Corporate Communications, PAB340, P.O. Box 52025, Phoenix, AZ 85072-2025. Copies of the Annual Report can also be obtained by contacting 602-236-2598 or by sending a request to investor@srpnet.com.

MISCELLANEOUS

References herein to the Act, the Resolution and certain other statutes, resolutions and contracts are brief discussions of certain provisions thereof. Such discussions do not purport to be complete, and reference is made to such documents for full and complete statements of such provisions.

Any statements made in this Official Statement involving matters of opinion or of projections, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the projections will be realized.

The District has authorized the execution and delivery of this Official Statement.

Salt River Project Agricultural
Improvement and Power District

/s/ WILLIAM P. SCHRADER

President

/s/ RICHARD H. SILVERMAN

General Manager

Attest:

/s/ TERRILL A. LONON

Corporate Secretary

**APPENDIX A — Report of Independent Public Accountants and
Combined Financial Statements as of April 30, 2002 and 2001**



REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of
Salt River Project Agricultural Improvement
and Power District, and
the Board of Governors of
Salt River Valley Water Users' Association

In our opinion, the accompanying combined balance sheets as of April 30, 2002 and the related combined statements of net revenues and comprehensive income and of cash flows present fairly, in all material respects, the financial position of Salt River Project Agricultural Improvement and Power District and its subsidiaries and Salt River Valley Water Users' Association (collectively, the Company) at April 30, 2002 and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. The combined financial statements of the Company as of April 30, 2001 and for the year then ended were audited by other independent accountants whose report dated June 11, 2001 expressed an unqualified opinion on those statements.

As discussed in Note 3 to the combined financial statements, on May 1, 2001 the Company adopted Statement of Financial Accounting Standards No. 133 and changed its method of accounting for derivative instruments.

Price Waterhouse Coopers LLP

Los Angeles, California
May 30, 2002

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors,
Salt River Project Agricultural Improvement
and Power District, and
Board of Governors,
Salt River Valley Water Users' Association:

We have audited the accompanying combined balance sheets of the SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT AND SUBSIDIARIES, and the SALT RIVER VALLEY WATER USERS' ASSOCIATION (collectively, the Company) as of April 30, 2001 and 2000, and the related combined statements of net revenues and comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of April 30, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Phoenix, Arizona
June 11, 2001

**This is a copy of a previously issued report.
The report has not been reissued by Arthur Andersen.**

SALT RIVER PROJECT
COMBINED BALANCE SHEETS
April 30, 2002 and 2001

	2002	2001
	(Thousands)	
ASSETS		
UTILITY PLANT		
Plant in service —		
Electric	\$ 6,652,164	\$ 5,948,320
Irrigation	246,974	234,392
Common	385,897	391,698
Total plant in service	7,285,035	6,574,410
Less — Accumulated depreciation on plant in service	(3,313,051)	(3,102,243)
	3,971,984	3,472,167
Plant held for future use	31,144	31,134
Construction work in progress	482,568	326,215
Nuclear fuel, net	42,966	37,044
	<u>4,528,662</u>	<u>3,866,560</u>
OTHER PROPERTY AND INVESTMENTS		
Non-utility property and other investments	110,166	87,573
Segregated funds, net of current portion	368,296	352,302
	<u>478,462</u>	<u>439,875</u>
CURRENT ASSETS		
Cash and cash equivalents	594,523	636,954
Temporary investments	185,463	348,031
Current portion of segregated funds	81,044	72,312
Receivables, net of allowance for doubtful accounts	140,843	348,307
Fuel stocks	35,612	25,480
Materials and supplies	70,063	60,500
Other current assets	14,964	39,519
	<u>1,122,512</u>	<u>1,531,103</u>
DEFERRED CHARGES AND OTHER ASSETS	<u>458,291</u>	<u>516,410</u>
	<u>\$ 6,587,927</u>	<u>\$ 6,353,948</u>
CAPITALIZATION AND LIABILITIES		
LONG-TERM DEBT	\$ 3,033,931	\$ 3,098,273
ACCUMULATED NET REVENUES AND OTHER COMPREHENSIVE INCOME	2,330,268	2,312,014
TOTAL CAPITALIZATION	<u>5,364,199</u>	<u>5,410,287</u>
CURRENT LIABILITIES		
Current portion of long-term debt	114,340	71,940
Accounts payable	121,727	207,129
Accrued taxes and tax equivalents	57,821	31,551
Accrued interest	40,981	52,279
Customers' deposits	26,645	23,336
Other current liabilities	117,706	111,355
	<u>479,220</u>	<u>497,590</u>
DEFERRED CREDITS AND OTHER NON-CURRENT LIABILITIES ..	<u>744,508</u>	<u>446,071</u>
COMMITMENTS AND CONTINGENCIES (Notes 5, 7, 8, 9, 10, 11 and 12)		
	<u>\$ 6,587,927</u>	<u>\$ 6,353,948</u>

The accompanying notes are an integral part of these combined financial statements.

SALT RIVER PROJECT
COMBINED STATEMENTS OF NET REVENUES AND COMPREHENSIVE INCOME
For the Years Ended April 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
	<u>(Thousands)</u>	
OPERATING REVENUES	<u>\$2,214,378</u>	<u>\$3,026,787</u>
OPERATING EXPENSES		
Power purchased	713,797	914,646
Fuel used in electric generation	420,070	514,049
Other operating expenses	338,176	471,670
Maintenance	139,908	156,002
Depreciation and amortization	411,915	473,334
Taxes and tax equivalents	<u>86,255</u>	<u>82,335</u>
Total operating expenses	<u>2,110,121</u>	<u>2,612,036</u>
Net operating revenues	<u>104,257</u>	<u>414,751</u>
OTHER INCOME (EXPENSES)		
Interest income	55,801	68,147
Other expenses, net	<u>(3,497)</u>	<u>(2,662)</u>
Total other income (expenses), net	<u>52,304</u>	<u>65,485</u>
Net revenues before financing costs	<u>156,561</u>	<u>480,236</u>
FINANCING COSTS		
Interest on bonds	137,544	148,110
Amortization of bond discount/premium and issuance expenses	1,732	4,951
Interest on other obligations	23,721	24,011
Capitalized interest	<u>(14,398)</u>	<u>(6,532)</u>
Net financing costs	<u>148,599</u>	<u>170,540</u>
NET REVENUES BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	7,962	309,696
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	<u>11,834</u>	<u>—</u>
NET REVENUES	19,796	309,696
OTHER COMPREHENSIVE INCOME		
Net unrealized loss on securities and derivative instruments	<u>(1,542)</u>	<u>(36,575)</u>
COMPREHENSIVE INCOME	<u>\$ 18,254</u>	<u>\$ 273,121</u>

The accompanying notes are an integral part of these combined financial statements.

SALT RIVER PROJECT
COMBINED STATEMENTS OF CASH FLOWS
For the Years Ended April 30, 2002 and 2001

	<u>2002</u>	<u>2001</u>
	(Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net revenues	\$ 19,796	\$ 309,696
Adjustments to reconcile net revenues to net cash provided by operating activities:		
Depreciation and amortization	411,915	473,334
Postretirement benefits expense	27,900	23,800
Amortization of provision for loss on long-term contracts	(13,281)	(13,281)
Amortization of net bond discount/premium and issuance expenses	1,732	4,951
Amortization of spent nuclear fuel storage	1,446	1,333
Cumulative effect of change in accounting principle	11,834	—
Decrease (increase) in —		
Fuel stocks and materials & supplies	(19,695)	4,299
Receivables, including unbilled revenues, net	207,464	(167,937)
Other assets	(96,188)	(11,620)
Increase (decrease) in —		
Accounts payable	(85,402)	94,702
Accrued taxes and tax equivalents	26,270	(1,221)
Accrued interest	(11,298)	(750)
Other liabilities, net	<u>105,286</u>	<u>70,861</u>
Net cash provided by operating activities	<u>587,779</u>	<u>788,167</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to utility plant, net	(643,564)	(372,863)
Decrease in investments	<u>141,568</u>	<u>228,138</u>
Net cash used for investing activities	<u>(501,996)</u>	<u>(144,725)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	1,013,150	—
Repayment of long-term debt, including refundings	(1,097,470)	(73,859)
Payment of capital lease obligation	(15,371)	—
Increase in segregated funds	<u>(28,523)</u>	<u>(21,564)</u>
Net cash used for financing activities	<u>(128,214)</u>	<u>(95,423)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(42,431)	548,019
BALANCE AT BEGINNING OF YEAR IN CASH AND CASH EQUIVALENTS	<u>636,954</u>	<u>88,935</u>
BALANCE AT END OF YEAR IN CASH AND CASH EQUIVALENTS	<u><u>\$ 594,523</u></u>	<u><u>\$ 636,954</u></u>
SUPPLEMENTAL INFORMATION		
CASH PAID FOR INTEREST (Net of capitalized interest)	\$ 158,165	\$ 166,339
NONCASH FINANCING ACTIVITIES		
Utility plant acquired under capital lease	\$ 292,068	—
Loss on defeasance	\$ 60,646	—

The accompanying notes are an integral part of these combined financial statements.

SALT RIVER PROJECT
NOTES TO COMBINED FINANCIAL STATEMENTS
APRIL 30, 2002 AND 2001

(1) Basis of Presentation:

The Company

The Salt River Project Agricultural Improvement and Power District (the District) is an agricultural improvement district organized in 1937 under the laws of the State of Arizona. It operates the Salt River Project (the Project), a federal reclamation project, under contracts with the Salt River Valley Water Users' Association (the Association) by which it has assumed the obligations of the Association to the United States of America for the care, operation and maintenance of the Project. The District owns and operates an electric system that generates, purchases and distributes electric power and energy, and provides electric service to residential, commercial, industrial and agricultural power users in a 2,900 square mile service territory in parts of Maricopa, Gila and Pinal Counties, plus mine loads in an adjacent 2,400 square mile area in Gila and Pinal Counties. The Association, incorporated under the laws of the Territory of Arizona in 1903, operates an irrigation system as the District's agent.

In 1997, the District established a wholly-owned, taxable subsidiary, New West Energy Corporation (New West Energy), to market, at retail, energy available to the District that is surplus to the needs of its retail customers, and energy that may be rendered surplus by retail competition in Arizona in the supply of generation. In addition, New West Energy provides other retail energy-related services to current and prospective energy customers as part of its program to market surplus energy. However, as a result of the turmoil in the California energy market, the District has reassessed the business plan of New West Energy. At the current time, New West Energy does not market excess energy. It continues to provide energy-related services to various customers, and monitor the market situation in the Southwest in contemplation of future activity.

Possession and Use of Utility Plant

The United States of America retains a paramount right or claim in the Project that arises from the original construction and operation of certain of the Project's electric and water facilities as a federal reclamation project. Rights to the possession and use of, and to all revenues produced by, these facilities are evidenced by contractual arrangements with the United States of America.

Principles of Combination

The accompanying combined financial statements reflect the combined accounts of the Association and the District (together referred to as SRP). The District's financial statements are consolidated with its two wholly-owned taxable subsidiaries, New West Energy and Papago Park Center, Inc. (PPC). PPC is a real estate management company. All material intercompany transactions and balances have been eliminated.

Regulation and Pricing Policies

Under Arizona law, the District's publicly-elected Board of Directors (the Board) serves as its regulatory body and has the exclusive authority to establish electric prices. The District is required to follow certain procedures, including public notice requirements and special Board meetings, before implementing changes in standard electric price schedules.

(2) Significant Accounting Policies:

Basis of Accounting

The accompanying combined financial statements are presented in conformity with accounting principles generally accepted in the United States of America (GAAP) and reflect the pricing policies of the Board. The District's "regulated" operations apply Statement of Financial Accounting Standards No. 71, "Accounting for

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

the Effects of Certain Types of Regulation" (SFAS No. 71), while "non-regulated" operations follow GAAP for enterprises in general. Classification of regulated and non-regulated operations is determined in accordance with applicable GAAP accounting guidelines.

The preparation of financial statements in compliance with GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and disclosures of contingencies. Actual results could differ from the estimates.

Utility Plant

Utility plant is stated at the historical cost of construction, less any impairment losses. Capitalized construction costs include labor, materials, services purchased under contract, and allocations of indirect charges for engineering, supervision, transportation and administrative expenses and capitalized interest or an allowance for funds used during construction (AFUDC). AFUDC is the estimated cost of funds used to finance regulated plant additions and is recovered in prices through depreciation expense over the useful life of the related asset. The cost of property that is replaced, removed or abandoned, together with removal costs, less salvage, is charged to accumulated depreciation.

A composite rate of 5.45% and 5.54% was used in fiscal years 2002 and 2001 to calculate interest on funds used to finance construction work in progress for non-regulated projects, resulting in \$14.4 million and \$6.5 million of interest capitalized, respectively.

Depreciation expense is computed on the straight-line basis over the estimated useful lives of the various classes of plant assets. The following table reflects the District's average depreciation rates on the average cost of depreciable assets, for the fiscal years ended April 30:

	<u>2002</u>	<u>2001</u>
Average electric depreciation rate	3.92%	3.58%
Average irrigation depreciation rate	2.88%	2.20%
Average common depreciation rate	6.41%	5.84%

Bond Expense

Bond discount/premium and issuance expenses are being amortized using the effective interest method over the terms of the related bond issues.

Allowance for Doubtful Accounts

The District has provided for an allowance for doubtful accounts of \$67.5 million and \$76.4 million as of April 30, 2002 and 2001, respectively.

Nuclear Fuel

The District amortizes the cost of nuclear fuel using the units of production method. The nuclear fuel amortization and the disposal expense are components of fuel expense. Accumulated amortization of nuclear fuel at April 30, 2002 and 2001 was \$318.4 million and \$301.0 million, respectively.

Nuclear Decommissioning

The total cost to decommission the District's 17.49% share of Palo Verde Nuclear Generating Station (PVNGS) is estimated to be \$344.9 million, in 2001 dollars. This estimate is based on a site specific study prepared by an independent consultant, assuming the prompt removal/dismantlement method of decommissioning authorized by the Nuclear Regulatory Commission (NRC). This study is updated as

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

required, every three years, and was last updated in the fall of 2001. Based on the 2001 site study, the District estimates its share of ultimate decommissioning expenditures will be \$1.8 billion. Current decommissioning funding levels assume earnings on the decommissioning funds of 7.65%, as well as a future annual escalation rate of 5.92% in decommissioning costs. The actual decommissioning costs may vary from the estimate. Expenditures for decommissioning activities are anticipated over a fourteen-year period beginning in 2024. Estimated decommissioning costs are accrued over the estimated useful life of PVNGS. The liability associated with decommissioning is included in deferred credits and other non-current liabilities in the accompanying Combined Balance Sheets and amounted to \$93.5 million and \$84.9 million as of April 30, 2002 and 2001, respectively. Decommissioning expense, net of earnings on trust fund assets, of \$3.6 million and \$4.3 million was recorded in fiscal years 2002 and 2001, respectively. The District contributes to a trust set up in accordance with the NRC requirements. Decommissioning funds of \$121.4 million and \$113.5 million, stated at market value, as of April 30, 2002 and 2001, respectively, are held in the trust and are classified as segregated funds in the accompanying Combined Balance Sheets. Unrealized gains on decommissioning fund assets of \$28.2 million and \$30.2 million at April 30, 2002 and 2001, respectively, are included in accumulated comprehensive income as a component of accumulated net revenues.

Accounting for Energy Risk Management Activities

The District has an energy risk management program to limit exposure to risks inherent in normal energy business operations. The goal of the energy risk management program is to measure and minimize exposure to price risks, credit risks and control risks. Specific goals of the energy risk management program include reducing the impact of market fluctuations on energy commodity prices associated with customer energy requirements, excess generation and fuel expenses, in addition to meeting customer pricing needs, and maximizing the value of physical generating assets. The District employs established policies and procedures to meet the goals of the energy risk management program using various physical and financial instruments, including forward contracts, futures, swaps and options. Certain of these transactions are accounted for under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended (SFAS No. 133). Under SFAS No. 133, derivatives instruments are recorded in the balance sheet as either an asset or liability measured at their fair value. The standard also requires changes in the fair value of the derivative be recognized each period in current earnings or other comprehensive income depending on the purpose for using the derivative and/or its qualification, designation and effectiveness as a hedging transaction. Most of the District's contractual agreements qualify for the normal purchases and sales exception allowed under SFAS No. 133 and are not recorded at market value. For a detailed explanation of the effects of SFAS No. 133 on the District's financial results see Note (3) Accounting for Derivative Instruments and Hedging Activities.

Concentrations of Market and Credit Risk

Market risk is the risk that changes in market prices or customer demand will adversely affect earnings and cash flows. Industry movements towards competition in electric generation subject the District to market risk associated with energy commodities such as electric power and natural gas. Recovery of costs to produce electricity in a non-regulated environment will be affected by changes in competitive market prices for both production resources and the market price of energy sales to ultimate customers.

The use of contractual arrangements to manage the risks associated with changes in energy commodity prices creates credit risk exposure resulting from the possibility of nonperformance by counterparties pursuant to the terms of their contractual obligations. In addition, volatile energy prices can create significant credit exposure from energy market receivables. The District has a credit policy for wholesale counterparties, and continuously monitors credit exposures, routinely assesses the financial strength of its counterparties, minimizes credit risk by dealing primarily with creditworthy counterparties, entering into standardized agreements which allow netting of exposures to and from a single counterparty and by requiring letters of

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

credit, parent guarantees or other collateral when it does not consider the financial strength of a counterparty sufficient.

Income Taxes

The District is exempt from federal and Arizona state income taxes. Accordingly, no provision for income taxes has been recorded for the District in the accompanying combined financial statements.

New West Energy recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been recognized in its financial statements or tax returns. Deferred tax liabilities and assets are determined based on differences between the financial statement carrying amounts and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. Since its inception in May 1997, the tax effect of New West Energy's results of operations has been immaterial.

Cash Equivalents

The District treats short-term temporary cash investments with original maturities of three months or less as cash equivalents.

Revenue Recognition

The District recognizes revenue when billed and accrues estimated revenue for electricity delivered to customers that has not yet been billed.

Materials and Supplies, and Fuel Stocks

Materials and supplies are stated at lower of market or average cost. Fuel stocks are stated at lower of market or cost using the last-in, first-out method.

Reclassifications

For comparative purposes, certain prior year amounts have been reclassified to conform with the current year presentation.

Recently Issued Accounting Standards

During fiscal year 2002, the Financial Accounting Standards Board (FASB) issued SFAS Nos. 141-145:

SFAS No. 141, "*Business Combinations*," requires all business combinations initiated after June 30, 2001 be accounted for using the purchase method. The District evaluated the effect of SFAS No. 141 and determined there were no financial impacts related to its adoption by the District.

SFAS No. 142, "*Goodwill and Other Intangible Assets*," modifies the accounting and reporting of goodwill and other intangible assets. Under SFAS No. 142, entities are required to determine the useful life of intangible assets and amortize them over that period; if the useful life is determined to be indefinite, no amortization is to be recorded. For intangible assets recognized prior to the adoption of SFAS No. 142, the useful life is to be reassessed. The District evaluated the impact of SFAS No. 142 and determined there were no financial impacts related to its adoption by the District.

SFAS No. 143, "*Accounting for Asset Retirement Obligations*," requires the recognition, as an Asset Retirement Obligation (ARO), of a liability for dismantlement and restoration costs associated with the retirement of tangible long-lived assets in the period the liability is incurred. Upon initial recognition, the probability weighted future cash flows for the associated retirement costs, discounted using a credit-adjusted

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

risk-free rate, are recognized as both a liability and as an increase in the capitalized carrying amount of the related long-lived assets. Capitalized asset retirement costs are depreciated over the life of the related asset, with accretion of the ARO liability classified as an operating expense on the income statement. SFAS No. 143 must be applied by the District at the beginning of fiscal year 2004. The District is evaluating the impact of SFAS No. 143 on the combined financial statements.

SFAS No. 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets,"* supercedes SFAS No. 121, *"Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of."* SFAS No. 144 retains the fundamental provisions of SFAS No. 121 for the measurement and recognition of the impairment of long-lived assets to be held and used, as well as the measurement of long-lived assets to be disposed of by sale. SFAS No. 144 resolves significant implementation issues related to SFAS No. 121, broadens the component of an entity to be included in the presentation for discontinued operations, and measures long-lived assets held for sale at the lower of their carrying amount or fair value (less cost to sell), while ceasing depreciation. SFAS No. 144 also retains the amendments in SFAS No. 121 pertaining to regulatory assets under SFAS No. 71 and SFAS No. 90, *"Regulated Enterprises — Accounting for Abandonments and Disallowances of Plant Costs."* The adoption of SFAS No. 144 did not have a significant impact on the combined financial statements.

SFAS No. 145, *"Rescission of FAS Nos. 4, 44, and 64, Amendment of FAS 13, and Technical Corrections,"* rescinds various pronouncements regarding early extinguishment of debt and allows extraordinary accounting treatment for early extinguishment only when the provisions of Accounting Principles Board Opinion No. 30, *"Reporting the Results of Operations, Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions"* have been met. SFAS No. 145 provisions regarding early extinguishment of debt are generally effective for fiscal years beginning after May 15, 2002. Management does not believe that the adoption of this statement will have a material impact on SRP's combined financial statements.

(3) Accounting for Derivative Instruments and Hedging Activities

Effective May 1, 2001, the District adopted SFAS No. 133 as amended. SFAS No. 133 requires that entities recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. Changes in the fair value of derivative financial instruments are either recognized periodically in net revenues or accumulated net revenues (as a component of other comprehensive income), depending on whether or not the derivative meets specific hedge accounting criteria. This criteria includes a requirement for hedge effectiveness, which is measured based on the relative changes in fair value between the derivative contract and the hedged item over time. Any change in the fair value resulting from ineffectiveness is recognized immediately in net revenues. This new standard may result in additional volatility in the District's net revenues and comprehensive income.

The District enters into contracts for electricity, natural gas and other energy commodities to meet the expected needs of its retail customers. During periods when it is not needed to meet retail requirements, the District sells any excess capacity. The District's energy risk management program uses various physical and financial contracts to hedge exposures to fluctuating commodity prices. The District examines contracts at inception to determine the appropriate accounting treatment. If a contract does not meet the derivative criteria or if it qualifies for the SFAS No. 133 normal purchases and sales scope exception, the District accounts for the contract using settlement accounting (this means that costs and revenues are recorded when physical delivery occurs). For contracts that qualify as a derivative and do not meet the SFAS No. 133 normal purchases and sales scope exception, the District further examines the contract to determine if it will qualify for hedge accounting. If a contract does not meet the hedging criteria in SFAS No. 133, the District recognizes the changes in the fair value of the derivative instrument in net revenues each period (mark-to-market). If the contract does qualify for hedge accounting, changes in the fair value are recorded in

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

accumulated net revenues and other comprehensive income (as a component of other comprehensive income).

The District formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to the forecasted transactions. The District also formally assesses (both at the hedge's inception and on an ongoing basis) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. When it is determined that a derivative is not (or has ceased to be) highly effective as a hedge, the District discontinues hedge accounting prospectively, as discussed below.

The District discontinues hedge accounting prospectively when (1) it determines that the derivative is no longer effective in offsetting changes in cash flows of a hedged item; (2) the derivative expires or is sold, terminated, or exercised; (3) it is no longer probable that the forecasted transaction will occur; or (4) management determines that designating the derivative as a hedging instrument is no longer appropriate.

When the District discontinues hedge accounting because it is no longer probable that the forecasted transaction will occur in the originally expected period, the gain or loss on the derivative is reclassified into earnings. If the derivative remains outstanding, the District will carry the derivative at its fair value on the balance sheet, recognizing changes in the fair value in current-period earnings.

Initial Adoption

Upon adoption of SFAS No. 133, the District examined all contracts to determine the appropriate accounting treatment and concluded that some of the contracts entered into for supply and energy risk management activities were considered to be derivatives based on the accounting guidance at that time. The District's supply and energy risk management activities include the following types of contracts:

- *Long-term contracts* — purchases and sales of firm capacity and energy for periods of more than one year under unique contracts.
- *Forward contracts* — purchases and sales of a specified amount of capacity, energy or fuel at a specified price over a given period of time, typically for one month, three months or one year, under standard industry contracts.
- *Futures contracts* — similar to forward contracts with standardized terms and typically traded on an exchange. The District has a passively managed futures contract portfolio in which contracts are entered into and held to delivery and an actively managed futures contracts portfolio in which contracts are purchased and sold to take advantage of positive market changes.
- *Option contracts* — purchases and sales of financial instruments that provide the right to buy or sell energy commodities.
- *Swap contracts* — financial contracts to exchange cash flows based on agreed-upon parameters and price fluctuations in an energy related commodity.
- *Short-term contracts* — economy energy purchases and sales in the daily or hourly markets at fluctuating spot market prices and other non-firm energy sales.

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

Based on the District's interpretation of SFAS No. 133 and other guidance, the District classified its energy risk management contracts as follows:

<u>Contract Type</u>	<u>Normal Purchases and Sales</u>	<u>Cash Flow Hedge</u>	<u>Non-Qualifying Hedging Contracts</u>
Energy Risk Management Contracts:			
Long-term supply contracts.....	X		
Forward contracts.....	X		X
Futures contracts — passively managed.....		X	
Futures contracts — actively managed.....			X
Option contracts.....			X
Swap contracts.....			X
Short-term contracts.....			X

The accounting treatments for the various classifications are as follows:

- **Normal Purchases and Sales:** The contracts that qualify for the normal purchases and sales scope exception under SFAS No. 133 are accounted for using settlement accounting. The realized gains and losses on these contracts are reflected in net revenues as a component of net operating revenues at the contract settlement date.
- **Cash Flow Hedge:** The unrealized gains and losses related to these contracts are included in accumulated net revenues and other comprehensive income (as a component of other comprehensive income). As the contracts are settled, the realized gains and losses are recorded in net revenues as a component of net operating revenues and the unrealized gains and losses are reversed from other comprehensive income.
- **Non-qualifying Hedging Contracts:** These contracts hedge the risk of future commodity price fluctuations the District faces. However, they do not meet the requirements of SFAS No. 133 for hedge accounting. The unrealized gains and losses related to the contracts are reflected in net revenues as a component of net operating revenues.

As a result of adopting SFAS No. 133 and guidance issued by the FASB's Derivative Implementation Group (DIG) effective during fiscal year 2002, the District recognized \$98.1 million of derivative assets and \$80.5 million of derivative liabilities in the Combined Balance Sheets as of May 1, 2001. Also as of May 1, 2001, the District recorded an \$11.8 million gain in net revenues and a \$5.8 million gain in accumulated net revenues and other comprehensive income (as a component of other comprehensive income), both as a cumulative effect of a change in accounting principle.

As of April 30, 2002, the valuation of market changes for the District's energy risk management contracts resulted in a decrease in electric revenues of \$11.6 million and an increase in fuel expenses of \$44.4 million. The impact to net revenues for fiscal year 2002 was an unrealized loss of \$44.2 million. Without the effect of market changes, the net revenues for the period would have been \$64.0 million. Accumulated net revenues and other comprehensive income (as a component of other comprehensive income), was increased by \$2.3 million due to unrealized cash flow hedge gains as of April 30, 2002. Most of this impact relates to a multi-year hedge on transportation costs from two major gas basins in the Southwest for natural gas used for

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

retail generation. The following table summarizes the District's net revenues and balance sheet impact from market valuation of contracts as of April 30, 2002 (in thousands):

Net Revenues	
Operating Revenues before effects of SFAS No. 133	\$2,225,985
Operating Expenses, Other Income and Net Financing Costs before effects of SFAS No. 133	<u>2,161,990</u>
Net Revenues before effects of SFAS No. 133	63,995
Cumulative Effect of Change in Accounting Principle at May 1, 2001 on:	
Revenues — gain	10,502
Expenses — gain	(1,332)
Effects of SFAS No. 133 at April 30, 2002 on:	
Revenues — loss	(11,606)
Expenses — loss	<u>44,427</u>
Net Revenues	<u>\$ 19,796</u>
Balance Sheet	
Other Current Assets	\$ 3,383
Deferred Charges and Other Assets	12,514
Other Current Liabilities	(18,552)
Deferred Credits and Other Non-current Liabilities	<u>(39,289)</u>
Net Asset (Liability)	<u>\$ (41,944)</u>

As of April 30, 2002, the maximum length of time over which the District hedged its exposure to the variability in future cash flows for forecasted transactions was eighteen months. During the twelve months ended April 30, 2003, the District estimates that a net gain of \$0.3 million will be reclassified from accumulated other comprehensive income as an offset to the effect on earnings of market price changes for the related hedged transactions.

In December 2001, the DIG issued revised guidance on the accounting for electricity contracts with option characteristics and the accounting for contracts that combine a forward contract and a purchased option contract. The effective date for the revised guidance for the District is May 1, 2002. The District is currently evaluating the new guidance to determine what impact, if any, it will have on the District's financial statements.

To date, the DIG has issued more than 100 interpretations to provide guidance in applying SFAS No. 133. As the DIG or the FASB continues to issue interpretations, the District may change the conclusions reached and, as a result, the accounting treatment and the impact on the combined financial statements, could change in the future.

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

(4) Accumulated Net Revenues and Other Comprehensive Income:

The following table summarizes accumulated net revenues and other comprehensive income (in thousands):

	Accumulated Net Revenues	Accumulated Other Comprehensive Income	Accumulated Net Revenues and Other Comprehensive Income
BALANCE, April 30, 2000	\$1,936,095	\$102,798	\$2,038,893
Net revenues	309,696	—	309,696
Net unrealized loss on available-for-sale securities	—	(36,575)	(36,575)
BALANCE, April 30, 2001	2,245,791	66,223	2,312,014
Net revenues	19,796	—	19,796
Cumulative effect of change in accounting principle	—	5,765	5,765
Unrealized gain on derivative instruments	—	2,255	2,255
Reclassification of realized loss to income	—	(5,765)	(5,765)
Net unrealized loss on available-for-sale securities	—	(3,797)	(3,797)
BALANCE, April 30, 2002	<u>\$2,265,587</u>	<u>\$ 64,681</u>	<u>\$2,330,268</u>

The majority of net unrealized loss on available-for-sale securities originates from decommissioning trust and segregated fund investments. Net unrealized gain (loss) on available-for-sale securities consists of gross unrealized (loss) on equity funds of \$(2.0) million and \$(41.1) million and gross unrealized gain (loss) on debt funds of \$(1.8) million and \$4.5 million at April 30, 2002 and 2001, respectively.

(5) LONG-TERM DEBT:

Long-term debt consists of the following at April 30 (in thousands):

	Interest Rate	2002	2001
Revenue bonds (mature through 2031)	3.0 – 7.0%	\$2,613,259	\$2,713,999
Unamortized bond discount/premium		10,012	(68,786)
Total revenue bonds outstanding		2,623,271	2,645,213
Commercial paper	1.2 – 1.7%	525,000	525,000
Total long-term debt		3,148,271	3,170,213
Less — current portion		(114,340)	(71,940)
Total long-term debt, net of current portion		<u>\$3,033,931</u>	<u>\$3,098,273</u>

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

The annual maturities of long-term debt (excluding commercial paper and unamortized bond discount/premium) as of April 30, 2002, due in the fiscal years ending April 30, are as follows (in thousands):

2003	\$ 114,340
2004	264,291
2005	215,616
2006	323,727
2007	79,995
Thereafter	<u>1,615,290</u>
	<u>\$2,613,259</u>

Revenue Bonds

Revenue bonds are secured by a pledge of, and a lien on, the revenues of the electric system, after deducting operating expenses, as defined in the bond resolution. Under the terms of the bond resolution, the District is required to maintain a debt service fund for the payment of future principal and interest. Included in segregated funds in the accompanying Combined Balance Sheets is \$149.1 million and \$283.7 million of debt service related funds as of April 30, 2002 and 2001, respectively.

The District has \$80.2 million of mini-revenue bonds outstanding and redeemable at the option of the bondholder under certain circumstances. Based on historical redemptions made on these bonds, management believes there are sufficient funds available to cover potential redemptions in any year.

The debt service coverage ratio, as defined in the bond resolution, is used by bond rating agencies to help evaluate the financial viability of the District. For the years ended April 30, 2002 and 2001, the debt service coverage ratio was 3.09 and 4.72, respectively.

Interest and the amortization of the bond discount and issue expense on the various issues results in an effective rate of 5.38% over the remaining term of the bonds.

The District has authorization to issue additional Electric System Revenue Bonds totaling \$1.2 billion principal amount and Electric System Refunding Revenue Bonds totaling \$2.7 billion principal amount, net of amounts issued in current year. These amounts include \$675.0 million in Electric System Revenue Bonds and \$750.0 million in Electric System Refunding Revenue Bonds authorized by the Commission on December 4, 2001, pursuant to applications filed earlier that year.

In December 2001, the District issued \$580.6 million of Electric System Refunding Revenue Bonds. The net proceeds from these bonds were used to defease outstanding bonds with par amounts of \$605.1 million. The defeasance is expected to reduce total debt payments over the life of the bonds by \$426.2 million and is expected to result in present value savings of approximately \$30.2 million. This transaction resulted in a net loss for accounting purposes of \$34.6 million, which was deferred and will be amortized over the life of the bonds to be refunded, as authorized by the Board.

In February 2002, the District issued \$432.6 million of Electric System Refunding Revenue Bonds. The net proceeds from these bonds were used to defease outstanding bonds with par amounts of \$437.4 million. The defeasance is expected to reduce total debt payments over the life of the bonds by \$21.4 million and is expected to result in present value savings of approximately \$29.6 million. This transaction resulted in a net loss for accounting purposes of \$26.1 million, which was deferred and will be amortized over the life of the bonds to be refunded, as authorized by the Board.

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

Commercial Paper

The District has issued \$525.0 million of tax-exempt commercial paper consisting of \$375.0 million Series B Issue and \$150.0 million Series A Issue, initiated in fiscal year 1998. The issues have an average weighted interest rate to the District of 1.47%. The commercial paper matures not more than 270 days from the date of issuance and is an unsecured obligation of the District. The District has the ability to refinance the outstanding commercial paper on a long-term basis in connection with its revolving lines of credit that support the commercial paper and are available through May 6, 2003. As such, the District has classified the commercial paper as long-term debt in the Combined Balance Sheets as of April 30, 2002.

While the revolving credit agreements contain covenants that could prohibit borrowing under certain conditions, management believes financing would be available. The District has never borrowed under the two agreements and management does not expect to do so in the future. Alternative sources of funds to support the commercial paper program include existing funds on hand or the issuance of alternative debt, such as revenue bonds.

General Obligation Bonds

In 1984, the District refunded its then-outstanding general obligation bonds. Although the refunding constituted an in-substance defeasance of the prior lien on revenues securing the bonds, the general obligation bonds continue to be general obligations of the District, secured by a lien upon the real property of the District and a guarantee by the Association. As of April 30, 2002, the amount of defeased general obligation bonds outstanding was \$2.5 million.

Line-of-Credit Arrangements

The District has \$525.0 million in revolving line-of-credit agreements supporting the commercial paper program. These agreements have various covenants, with which the District is in compliance at April 30, 2002.

(6) Fair Value of Financial Instruments:

The following methods and assumptions were used to estimate the fair value of each class of financial instruments identified in the following items in the accompanying Combined Balance Sheets.

Investments in Marketable Securities

The District invests in U.S. government obligations, certificates of deposit and other marketable investments. Such investments are classified as other investments, segregated funds, cash and cash equivalents or temporary investments in the accompanying Combined Balance Sheets depending on the purpose and duration of the investment. The fair value of marketable securities with original maturities greater than one year is based on published market data. The carrying amount of marketable securities with original maturities of one year or less approximates their fair value because of their short-term maturities.

Long-Term Debt

The fair value of the District's revenue bonds, including the current portion, was estimated by using pricing scales from independent sources. The carrying amount of commercial paper approximates the fair value because of its short-term maturity.

Other Current Assets and Liabilities

The carrying amounts of receivables, accounts payable, customers' deposits and other current liabilities in the accompanying Combined Balance Sheets approximate fair value because of their short-term maturities.

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

The estimated carrying amounts and fair values of the District's financial instruments, at April 30, are as follows (in thousands):

	2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investments in marketable securities:				
Other investments	\$ 34,000	\$ 34,579	\$ 13,000	\$ 13,117
Segregated funds	449,340	451,144	424,614	422,788
Temporary investments	185,463	186,294	348,031	348,060
Long-term debt	3,148,271	3,245,100	3,170,213	3,294,173

Accounting for Debt and Equity Securities

The District's investments in debt securities are reported at amortized cost if the intent is to hold the security to maturity. At April 30, 2002, the District's investments in debt securities have maturity dates ranging from May 3, 2002 to February 28, 2012. Other debt and equity securities are reported at market, with unrealized gains or losses included as a separate component of Accumulated Net Revenues and Other Comprehensive Income. The District's investments in debt and equity securities are included in temporary investments, segregated funds and non-utility property and other investments in the accompanying Combined Balance Sheets.

(7) Employee Benefit Plans and Incentive Programs

Defined Benefit Pension Plan and Other Post-retirement Benefits

SRP's Employees' Retirement Plan (the Plan) covers substantially all employees. The Plan is funded entirely from SRP contributions and the income earned on invested Plan assets. No contributions were required in fiscal years 2002 or 2001.

The Plan assets consist primarily of stocks, U.S. government obligations, corporate bonds and real estate funds. The unrecognized net transition asset is being amortized over 15 years, beginning in 1988.

SRP provides a non-contributory defined benefit medical plan for retired employees and their eligible dependents and a non-contributory defined benefit life insurance plan for retired employees. Employees are eligible for coverage if they retire at age 65 or older with at least five years of vested service under the Plan (ten years for those hired January 1, 2000 or later), or any time after attainment of age 55 with a minimum of ten years of vested service under the Plan (20 years for those hired January 1, 2000 or later). The funding policy is discretionary and is based on actuarial determinations. The unrecognized transition obligation is being amortized over 20 years, beginning in 1994.

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

The following tables outline changes in benefit obligations, plan assets, the funded status of the plans and amounts included in the combined financial statements as of April 30, based on January 31 valuation dates (in thousands):

	Pension Benefits		Other Benefits	
	2002	2001	2002	2001
Change in benefits obligation:				
Benefit obligation at beginning of year	\$567,300	\$ 510,800	\$ 215,400	\$ 170,400
Service cost	17,000	14,300	5,600	4,400
Interest cost	41,600	40,100	15,800	13,400
Amendments	—	8,400	—	—
Actuarial loss	48,600	17,700	52,100	34,200
Benefits paid	(29,800)	(24,000)	(9,000)	(7,000)
Benefit obligations at end of year	<u>\$644,700</u>	<u>\$ 567,300</u>	<u>\$ 279,900</u>	<u>\$ 215,400</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	\$705,100	\$ 699,100	\$ —	\$ —
Actual return on plan assets	(35,700)	30,000	—	—
Employer contributions	—	—	9,000	7,000
Benefits paid	(29,800)	(24,000)	(9,000)	(7,000)
Fair value of plan assets at end of year	<u>\$639,600</u>	<u>\$ 705,100</u>	<u>\$ —</u>	<u>\$ —</u>
Funded status	\$ (5,000)	\$ 137,800	\$ (279,900)	\$ (215,400)
Unrecognized transition obligation (asset)	—	(4,000)	62,300	67,900
Unrecognized net actuarial (gain) loss	37,000	(111,000)	83,500	32,500
Unrecognized prior service cost	8,700	9,900	—	—
Post January 31 contributions	—	—	3,000	1,800
Net asset (liability) recognized	<u>\$ 40,700</u>	<u>\$ 32,700</u>	<u>\$ (131,100)</u>	<u>\$ (113,200)</u>
Prepaid benefit cost	\$ 40,700	\$ 32,700	\$ —	\$ —
Accrued benefit liability	—	—	(131,100)	(113,200)
Net amount recognized	<u>\$ 40,700</u>	<u>\$ 32,700</u>	<u>\$ (131,100)</u>	<u>\$ (113,200)</u>

The Plan was amended to provide a retiree pension enhancement, effective January 1, 2001, and to provide enhanced benefits for selected employees effective September 19, 2000.

The District internally funds its other post-retirement benefits obligation. At April 30, 2002 and 2001, \$163.9 million and \$148.0 million of segregated funds, respectively, were designated for this purpose.

Weighted average assumptions used to calculate actuarial present values of benefit obligations were as follows:

	Pension Benefits		Other Benefits	
	2002	2001	2002	2001
Discount rate	7.25%	7.5%	7.25%	7.5%
Expected return on plan assets	8.75%	9.0%	N/A	N/A
Rate of compensation increase	4.0%	4.0%	4.0%	4.0%

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

For employees who retire at age 65 or younger, for measurement purposes, a 9.0% annual increase before attainment of age 65 and a 11.0% annual increase on and after attainment of age 65 in per capita costs of health care benefits were assumed during 2002; these rates were assumed to decrease uniformly until equaling 5.25% in all future years.

Components of net periodic benefit (gain) costs for the years ended April 30, are as follows (in thousands):

	Pension Benefits		Other Benefits	
	2002	2001	2002	2001
Service cost	\$ 17,000	\$ 14,300	\$ 5,600	\$ 4,400
Interest cost	41,600	40,100	15,800	13,400
Expected return on plan assets	(61,300)	(59,100)	—	—
Amortization of transition obligation (asset)	(4,000)	(4,000)	5,700	5,700
Recognized net actuarial loss (gain)	(2,400)	(2,400)	800	300
Amortization of prior service cost	1,100	400	—	—
Net periodic benefit (gain) cost	<u>\$ (8,000)</u>	<u>\$ (10,700)</u>	<u>\$ 27,900</u>	<u>\$ 23,800</u>

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage-point change in the assumed health care cost trend rates would have the following effect (in thousands):

	One- Percentage- Point Increase	One- Percentage- Point Decrease
Effect on total service cost and interest cost components	\$ 2,600	\$ (2,400)
Effect on post-retirement benefit obligation	\$ 38,100	\$ (33,700)

Defined Contribution Plan

SRP's Employees' 401(k) Plan (the 401(k) Plan) covers substantially all employees. The 401(k) Plan receives employee contributions and partial employer matching contributions. Employer matching contributions to the 401(k) Plan were \$7.1 million and \$5.9 million during fiscal years 2002 and 2001, respectively.

Employee Incentive Compensation Program

SRP has an incentive compensation program covering substantially all regular employees. The incentive compensation amount is based on achievement of pre-established targets. These targets were not met in fiscal year 2002. An accrual of \$28.2 million for fiscal year ended April 30, 2001 is included in other current liabilities in the accompanying Combined Balance Sheets. This liability is stated net of a receivable from participants in jointly owned electric utility plants of \$3.3 million at April 30, 2001.

(8) Interests in Jointly-Owned Electric Utility Plants:

The District has entered into various agreements with other electric utilities for the joint ownership of electric generating and transmission facilities. Each participating owner in these facilities must provide for the cost of its ownership share. The District's share of expenses of the jointly-owned plants is included in operating expenses in the accompanying Combined Statements of Net Revenues.

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

The following table reflects the District's ownership interest in jointly-owned electric utility plants as of April 30, 2002 (in thousands):

<u>Generating Station</u>	<u>Ownership Share</u>	<u>Plant in Service</u>	<u>Accumulated Depreciation</u>	<u>Construction Work in Progress</u>
Four Corners (NM) (Units 4 & 5)	10.00%	\$ 102,564	\$ (83,510)	\$ 2,991
Mohave (NV) (Units 1 & 2)	20.00%	198,131	(86,905)	8,703
Navajo (AZ) (Units 1, 2 & 3)	21.70%	345,017	(203,704)	1,075
Hayden (CO) (Unit 2)	50.00%	110,939	(61,050)	1,902
Craig (CO) (Units 1 & 2)	29.00%	242,759	(148,518)	3,119
PVNGS (AZ) (Units 1, 2 & 3)	17.49%	<u>1,103,240</u>	<u>(775,599)</u>	<u>36,107</u>
		<u>\$2,102,650</u>	<u>\$ (1,359,286)</u>	<u>\$53,897</u>

The District acts as the operating agent for the participants in the Navajo Generating Station (NGS). On November 30, 2001, the District acquired half (10%) of the shares in the Mohave Generating Station held by the Los Angeles Department of Water and Power, thereby increasing the District's total share to 20%.

(9) Capital Lease:

In fiscal year 2001, the District entered into a ten-year contract with Reliant Energy Desert Basin, LLC (Reliant) for the long-term exclusive purchase of power and energy produced at Reliant's facility located in Central Arizona. The amount of capacity available to the District is approximately 598 MW annually. The payments include costs for both capacity and operation and maintenance of the facility. Upon inception of the contract, the present value of the fixed payment attributable to capacity costs meets the requirement for accounting for this contract as a capital lease. Accordingly, in fiscal year 2002, the District recorded the present value of the capacity payments of \$292.1 million as utility plant and the related capital lease obligation in deferred credits and other non-current liabilities (long-term portion) and other current liabilities (short-term portion). At April 30, 2002, the utility plant under the capital lease was \$277.0 million, net of accumulated amortization of \$15.1 million and the capital lease obligation was \$276.7 million. The capacity payments required under the agreement total \$40.9 million annually through fiscal year 2007, and \$149.2 million thereafter. The operation and maintenance payments required under the agreement total \$21.5 million annually through fiscal year 2007, and \$78.5 million thereafter.

(10) Regulatory Issues:

Fundamental Changes in the Electric Utility Industry

The District historically operated in a highly-regulated environment in which it had an obligation to deliver electric service to customers within its service area. In May 1998, the Arizona Electric Power Competition Act (the Act) authorized competition in the retail sale of electric generation, recovery of stranded costs and competition in billing, metering and meter reading.

The Act allows a temporary surcharge on electric distribution service prices to pay for all or a portion of unmitigated stranded costs of electric generation service incurred as a direct result of the onset of competition. Such costs must have been incurred to serve customers in Arizona before December 26, 1996. This surcharge may not continue past December 31, 2004, and must not cause prices to exceed the prices in effect on December 30, 1998.

The legislature, in May 2002, established a study committee to examine the status of deregulation and determine whether the Act should be modified. The study committee will be meeting over the summer of 2002. It is unclear at this point if changes to the Act will result.

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

In 1999, the Arizona Corporation Commission (the Commission), which regulates public service corporations, approved final rules for retail electric competition. The Commission subsequently entered into settlement agreements with each of its regulated utilities, establishing terms and conditions precedent to a framework for stranded cost recovery and unbundled tariffs. Beginning January 1, 2001, all customers were given the right to select an alternative generation provider. In recent months, due to California's unsuccessful experience with competition and other market developments, the Commission began a review of its existing competition rules to determine whether changes or additions were necessary to provide additional safeguards for consumers. The Commission is focusing its attention on such issues as asset transfers, affiliated interest rules and market power. The process is ongoing and the District is uncertain of the impact any changes to retail electric competition may have on its operations or financial condition.

The Federal Energy Regulatory Commission (FERC) regulates the electric utility industry under the authority of various statutes. FERC issued rules in 1996 mandating, among other things, open nondiscriminatory access to transmission lines. The rules require comparable transmission service in order to use the transmission systems of public utilities. The District has filed a comparable open access transmission tariff to ensure reciprocal access, pursuant to rules FERC developed for non-jurisdictional entities like the District. In addition, FERC issued its Order No. 2000 in December 1999, requiring all jurisdictional public utilities that own, operate or control interstate transmission to attempt to develop proposals for regional transmission organizations (RTO). The District is participating in the development of an RTO for the Southwest.

The Changing Regulatory Environment

The service area of the District was opened to competition in generation beginning June 1, 2000, and to competition in billing, metering and meter reading beginning December 31, 2000. The District's electric distribution area remains regulated by its Board and the District will not provide distribution services in the distribution areas of other utilities.

The District's price plans have been unbundled since 1999. The District reviewed its price plans in November 2001 and approved, among other things, a Fuel and Purchase Power Adjustment Mechanism (Adjustment Mechanism) that became effective May 1, 2002. The Adjustment Mechanism provides for a prospective collection of amounts for fuel and purchased power costs above predetermined levels. Other changes to the District's price plans became effective December 31, 2001. The District prices its electric generation based upon market and cost of service factors.

Since December 31, 1998, the District has been recovering stranded costs through a competitive transition charge (CTC) paid by all distribution customers. Effective June 2004, the District will stop collecting the CTC. In fiscal year 2001 management determined, based upon projections using current economic conditions, that the full CTC of \$795.0 million may not be collected. Management, therefore, reduced the amount of the CTC asset and took a charge to depreciation and amortization expense of \$85.0 million as of April 30, 2001. Further, as part of the November 2001 price plans review, the District reviewed the level of its CTC associated with stranded cost recovery and elected to retain the CTC at its current level until June 1, 2004.

Through a surcharge to the District's transmission and distribution customers, the District recovers the costs of programs benefiting the general public, such as discounted rates for the elderly or impoverished, efficiency programs, demand-side management measures, renewable energy programs, economic development, research and development and nuclear decommissioning, including the cost of spent fuel storage. These surcharges have been separately identified and included in the District's price plans for the regulated portion of its operations.

SALT RIVER PROJECT
NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

Regulatory Accounting

The District accounts for the financial effects of the regulated portion of its operations in accordance with the provisions of SFAS No. 71, which requires cost-based, rate-regulated utilities to reflect the impacts of regulatory decisions in their financial statements.

As a result of the Board actions in August 1998 to open the District's service area to competition in generation, the District discontinued the application of SFAS No. 71 for its electric generation operations in fiscal year 1999. From that time forward, the provisions of SFAS No. 101, *"Regulated Enterprises: Accounting for the Discontinuation of Application of FASB Statement No. 71,"* have been applied to the portion of its business no longer meeting the provisions of SFAS No. 71.

In fiscal year 1999, the District evaluated the carrying amounts of its generation operations in relation to future cash flows expected to be generated from their use in a competitive environment and determined that \$850.2 million of these assets were impaired. Impairment of \$631.8 million was attributable to generation operations, and \$163.7 million was attributable to long-term energy contracts. Of the total impairment, a maximum of \$795.0 million may be recovered through the CTC, and such amount was recorded as a regulatory asset (CTC regulatory asset). The CTC regulatory asset will be recovered through the competitive transition charge over the period beginning December 31, 1998, and continuing through May 31, 2004. Since December 31, 1998, the District has amortized or charged \$530.5 million of CTC asset to depreciation and amortization expense and recovered \$460.1 million through CTC revenue.

Regulatory assets for spent nuclear fuel storage are being amortized over the life of the nuclear plant. Bond defeasance regulatory assets are being amortized over different periods, beginning in fiscal year 1997 and ending in fiscal year 2031. Regulatory assets are included in deferred charges and other assets on the accompanying Combined Balance Sheets.

Deferred charges and other assets consist primarily of the following at April 30 (in thousands):

	<u>2002</u>	<u>2001</u>
CTC regulatory asset	\$264,931	\$392,097
Bond defeasance regulatory asset	84,475	36,600
Spent nuclear fuel storage regulatory asset	22,209	21,974
Prepaid pension benefits	40,700	32,700
Other	45,976	33,039
	<u>\$458,291</u>	<u>\$516,410</u>

If events were to occur making full recovery of these regulatory assets no longer probable, the District would be required to write off the remaining balance of such assets as a one-time charge to net revenues.

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

Deferred credits and other non-current liabilities consist primarily of the following at April 30 (in thousands):

	2002	2001
Capital lease obligation	\$251,364	\$ —
Provision for contract losses	119,460	132,741
Accrued post-retirement benefit liability	131,100	113,200
Accrued decommissioning costs	93,532	84,946
Derivatives market valuation	39,289	—
Accrued spent nuclear fuel storage	25,657	24,915
Other	84,106	90,269
	<u>\$744,508</u>	<u>\$446,071</u>

Operating results from the separable portion of the District's operations not meeting the provisions of SFAS No. 71 are as follows (in thousands):

	Fiscal Year Ended April 30, 2002	Fiscal Year Ended April 30, 2001
Operating revenues	\$1,459,451	\$2,277,240
Operating expenses	1,387,367	1,770,065
Net operating revenues from non-regulated operations	<u>\$ 72,084</u>	<u>\$ 507,175</u>

Utility plant assets used in the separable portion of the District's operations no longer meeting the provisions of SFAS No. 71 are as follows at April 30 (in thousands):

	2002	2001
Electric plant in service	\$ 3,887,948	\$ 3,460,089
Less accumulated depreciation	<u>(2,119,902)</u>	<u>(1,985,330)</u>
Net utility plant assets used in non-regulated operations	<u>\$ 1,768,046</u>	<u>\$ 1,474,759</u>

(11) Commitments:

Subsidiary Guarantees

The District acts as guarantor for New West Energy's contractual obligations as necessary to satisfy performance security requirements under agreements with utility distribution companies, brokers and counterparties for financial hedge transactions and power purchasers and sellers. No payments were made under these guarantees during fiscal years 2002 and 2001.

Improvement Program

The Improvement Program represents SRP's six-year plan for major construction projects and capital expenditures for existing generation, transmission, distribution and irrigation assets. For the 2003-2008 period, SRP estimates capital expenditures of approximately \$2.9 billion. Major construction projects include expansion of generation at the Santan Generating Station, as well as other key strategic distribution and transmission projects.

SALT RIVER PROJECT
NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

Long-Term Power Contracts

The District entered into three contracts, collectively, with the United States Bureau of Reclamation (United States), the Western Area Power Administration and the Central Arizona Water Conservation District (CAWCD) for the long-term sale, through September 2011 to the District, of power and energy associated with the United States' entitlement to NGS. The amount of energy available to the District varies annually and is expected to decline over the life of the contracts. The District pays a fixed amount under the contracts, pays the cost of NGS generation and other related costs, and supplies energy at cost to CAWCD for Central Arizona Project facilities. The fixed portion of the District's payment obligations under the three contracts totals \$47.0 million annually through fiscal year 2007, and \$207.4 million thereafter. Of the total obligation, \$25.2 million annually through fiscal year 2007 and \$111.3 million thereafter are unconditionally payable regardless of the availability of power. Payments under these contracts totaled \$74.6 million and \$76.5 million in fiscal years 2002 and 2001, respectively.

The District entered into two other long-term power purchase agreements to obtain a portion of its projected load requirements through 2011. Minimum payments under these contracts are \$38.9 million annually through fiscal year 2007 and \$150.0 million thereafter. Total payments under these two contracts, including the minimum payments, were \$61.7 million and \$62.9 million in fiscal years 2002 and 2001, respectively. In conjunction with the impairment analysis performed on generation-related operations, the District has recorded provisions for losses on these contracts. The provisions recorded in August 1998, of \$163.7 million, are being amortized over the life of the contracts, commencing January 1, 1999. Amortization of \$13.3 million has been reflected as a reduction in purchased power expense in fiscal years 2002 and 2001. The remaining liability at April 30, 2002 of \$119.5 million is included in deferred credits and other non-current liabilities in the Combined Balance Sheets.

Fuel Supply

At April 30, 2002, minimum payments under long-term coal supply contract commitments are estimated to be \$148.4 million in fiscal year 2003, \$153.4 million in fiscal year 2004, \$144.6 million in fiscal year 2005, \$118.3 million in fiscal year 2006, \$90.7 million in fiscal year 2007, and \$345.4 million thereafter.

(12) Contingencies:

Nuclear Insurance

Under existing law, public liability claims arising from a single nuclear incident are limited to \$9.5 billion. PVNGS participants insure for this potential liability through commercial insurance carriers to the maximum amount available (\$200.0 million) with the balance covered by an industry-wide retrospective assessment program as required by the Price-Anderson Act. If losses at any nuclear power plant exceed available commercial insurance, the District could be assessed retrospective premium adjustments. The maximum assessment per reactor per nuclear incident under the retrospective program is \$88.1 million including a 5% surcharge, applicable in certain circumstances, but not more than \$10.0 million per reactor may be charged in any one year for each incident.

Based on the District's ownership share in PVNGS, the maximum potential assessment would be \$46.2 million, including the 5% surcharge, but would be limited to \$5.2 million per incident in any one year.

Spent Nuclear Fuel

Under the Nuclear Waste Policy Act of 1982, the District pays 1/10 of one cent per kWh on its share of net energy generation at PVNGS to the Department of Energy (DOE). The DOE was responsible for the selection and development of repositories for permanent storage and disposal of spent nuclear fuel not later than December 31, 1998. Because of the significant delays in the DOE's schedule, it cannot be determined

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

when the DOE will accept waste from PVNGS or from the other owners of spent nuclear fuel. It is unlikely, due to PVNGS' position in DOE's queue for receiving spent fuel, that Arizona Public Service Company (APS), the operating agent of PVNGS, will be able to initiate shipments to DOE during the licensed life of PVNGS. Accordingly, APS is constructing an on-site dry cask storage facility to receive and store PVNGS spent fuel. The facility is expected to receive and store spent fuel at the end of 2002.

The District's share of on-site interim storage at PVNGS is estimated to be \$26.5 million for costs to store spent nuclear fuel from inception of the plant to date, and \$1.8 million per year going forward. These costs have been included in the District's regulated operations price plans for transmission and distribution.

Navajo Nation Lawsuit

In June 1999, the Navajo Nation filed a lawsuit in the United States District Court in Washington D.C., alleging that the coal supplier for the Navajo and Mohave Generating Stations (Peabody Coal Company), Southern California Edison Company, the District, and other defendants, had induced the United States to breach its fiduciary duty to the Navajo Nation and had violated federal racketeering statutes. The lawsuit arises out of negotiations that culminated in 1987 with amendments to the coal royalty and lease agreements for mining coal for the Navajo and Mohave Generating Stations. The suit alleges \$600.0 million in damages and seeks treble damages along with punitive damages of not less than \$1.0 billion. In March 2001, the Hopi Tribe intervened in the suit. However, the claims of both the Navajo Nation and the Hopi Tribe have been dismissed in their entirety with respect to the District. While the District has moved for the entry of final judgment in its favor, the Navajo Nation and Hopi Tribe have moved for restoration of the dismissed claims. These motions are pending. If final judgment is entered in favor of the District, it is anticipated that the Navajo Nation and Hopi Tribe will appeal such a judgment.

Previously, the Navajo Nation had filed a lawsuit against the United States Government based on similar allegations. That lawsuit had been dismissed, but on appeal, it was reinstated and the Court of Appeals, in August 2001, held that the United States had breached its fiduciary duty to the Navajo Nation, and that a claim for damages was within the jurisdiction of the Court of Federal Claims. On March 15, 2002, the United States filed a petition for review of that decision with the United States Supreme Court. The District does not believe that these disputes will have material adverse effects on its operations or financial condition.

Environmental

The SRP is subject to numerous legislative, administrative and regulatory requirements relative to air quality, water quality, hazardous waste disposal and other environmental matters. SRP conducts ongoing environmental reviews of its properties for compliance and to identify those properties it believes may require remediation. Such requirements have resulted and will continue to result in increased costs associated with operation of existing properties.

Air Quality

The federal Clean Air Act, as amended, among other things, requires reductions in sulfur dioxide and nitrogen oxide emissions from electric generating stations and regulates emissions of hazardous air pollutants by generating stations.

In December 1999, the participants in Mohave Generating Station settled a lawsuit alleging numerous and continuing violations of opacity and sulfur dioxide standards. Under the terms of the settlement, the participants must install by January 1, 2006, a sulfur dioxide scrubber and other pollution control equipment. Major plant modifications, including emissions controls, are required for continued operation as a coal-fired plant. Capital costs are estimated at \$411.6 million, of which the District's share would be \$82.3 million. These costs are included in the capital contingencies portion of the 2003-2008 Improvement Program. However, the Hopi Tribe has demanded that pumping water for the slurry pipeline cease by the end of 2005. The Mohave Participants have refused to commit to install pollution abatement equipment without reasonable

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

assurance that water would be available to deliver coal to the plant; therefore, because of the time required to order and install the pollution abatement equipment, the plant will likely cease operations at the end of 2005 for some period of time. The District believes that it will be able to replace the energy from Mohave from other sources. Although the Mohave Participants and the Tribe are working diligently to reach a settlement, it is not certain if, and when, a resolution will be reached. If a settlement is not reached, the District believes that the site can continue as a generation source and options for such are under review.

In January 2001, the participants in the Craig Generating Station agreed to settle a lawsuit that alleged, among other things, numerous violations of opacity standards by Craig Units 1 and 2. Under the terms of the settlement, the participants must install fabric filter baghouses and other equipment on Units 1 and 2 by December 31, 2003 and June 30, 2004, respectively. Capital costs are estimated at \$92.8 million, of which the District's share would be \$26.9 million. These costs are included in the capital contingencies portion of the 2003-2008 Improvement Program.

The U.S. Environmental Protection Agency (EPA) is in the process of developing regulations for the control of mercury emissions from coal and oil-fired utility boilers. Regulations are scheduled to be proposed in late 2003 with a compliance date of late 2007. These regulations will affect all new and existing units. The EPA has not yet determined the level of control that will be required. This rule could affect the District's coal-fired units and the District is still uncertain of the impact, which could range from no change to the installation of new emission controls.

President Bush recently proposed a Clear Skies Initiative (CSI) intended to achieve dramatic reductions of sulfur dioxide (SO₂), oxides of nitrogen (NO_x) and mercury (Hg) emissions in a coordinated and phased manner. The administration expects that the CSI will result in substantial power plant emission reductions and provide the electric power generation industry with regulatory certainty while maintaining fuel supply diversity. A number of other bills are also under consideration in Congress that call for significant reductions in SO₂, NO_x and Hg as well as carbon dioxide (CO₂). The current Clean Air Act contains several provisions that are directed at emissions of SO₂, NO_x, and Hg. The District is planning on future emission reductions at its coal-fired power plants as a result of these legislative and regulatory initiatives. The specific level of reduction and compliance cost will not be known until new legislation is passed or the EPA and the states finalize existing Clean Air Act regulatory programs.

Coal Mine Reclamation

In management's opinion, there are sufficient accruals in the accompanying combined financial statements for the District's obligation to reimburse certain coal providers for amounts due for certain coal reclamation costs. However, the District is contesting certain other coal mine reclamation costs. Neither the District's responsibility or the ultimate amount of liability, if any, can be determined at this time. Management does not believe that the outcome of these matters will have a material adverse effect on the District's financial position or results of operations.

Gas Supply

The District has a full requirements contract with El Paso Natural Gas Company (El Paso) for the transportation of natural gas. This contract is under challenge at FERC from producers and marketers who are unhappy with the uncertainty of their deliveries on the El Paso System. At a hearing on the matter held on May 30, 2002, FERC approved the issuance of an order directing El Paso to convert its full requirements customers to fixed entitlements. While the outcome of this matter is unsettled, the District's available transportation for existing and planned gas generation facilities could be substantially reduced. The financial impact of this dispute cannot be determined, but it could be significant. The District is considering alternatives, including gas storage and construction of additional pipeline, in order to mitigate the impact of an adverse outcome.

SALT RIVER PROJECT

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

California Energy Market Issues

In 1996, California adopted a restructuring program for its electric utility industry that combined generation divestiture and reliance on wholesale spot markets with rigid retail price controls. The situation was further compounded by significant increases in fuel costs, transmission constraints between northern and southern California, and a relatively dry period in the Northwest that significantly reduced the amount of hydroelectric power available. The result was a dysfunctional energy market, exponentially high wholesale prices, bankruptcy of California's largest investor-owned utility (Pacific Gas and Electric Company), and inadequate resources to serve customers.

Multiple federal and state agencies, as well as individual claimants, are pursuing numerous investigations and lawsuits, alleging manipulation and other improprieties, including antitrust violations, in connection with the wholesale energy market in California. Because the District was a market participant during the relevant time period (2000 and 2001), the District, along with other participants in the California market, has been named as a defendant in several of these suits and investigations. The District denies any wrongdoings and is cooperating with the federal and state agencies.

Indian Matters

From time to time, SRP is involved in litigation and disputes with various Indian tribes on issues concerning regulatory jurisdiction, royalty payments, taxes and water rights, among others (see Navajo Nation Lawsuit and Air Quality above). Resolution of these matters may result in increased operating expenses.

Other Litigation

In the normal course of business, SRP is exposed to various litigation or is a defendant in various litigation matters. In management's opinion, the ultimate resolution of these matters will not have a material adverse effect on SRP's financial position or results of operations.

Self-Insurance

The District maintains various self-insurance retentions for certain casualty and property exposures. In addition, the District has insurance coverage for amounts in excess of its self-insurance retention levels. The District provides for reserves based on management's best estimate of claims, including incurred but not reported claims. In management's opinion, the reserves established for these claims are adequate and any changes will not have a material adverse effect on the District's financial position or results of operations.

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September 13, 2002

Board of Directors
Salt River Project Agricultural
Improvement and Power District
Post Office Box 52025
Phoenix, Arizona 85072-2025

Directors:

**Consulting Engineer's Report
Salt River Project Agricultural
Improvement and Power District
2002 Series B Bonds**

Presented herein is a summary of our studies ("Report") prepared in conjunction with the proposal by the Salt River Project Agricultural Improvement and Power District ("District") to issue \$570,000,000 of interest bearing Salt River Project Electric System Revenue Bonds, 2002 Series B Bonds ("2002 Series B Bonds"). The proceeds of the 2002 Series B Bonds will be used to fund capital improvements to the District's electrical system. The 2002 Series B Bonds are being issued pursuant to the District's Resolution Concerning Revenue Bonds, as amended ("Bond Resolution"). See Appendix C to the Official Statement, to which this Report is attached, for the 2002 Series B Bonds (the "Official Statement"), "Summary of the Resolution," for a description of the Bond Resolution.

The District owns and operates an electric system, which provides electric service in a 2,900 square-mile service area in parts of Maricopa, Gila and Pinal counties in Arizona, plus mine loads in an adjacent 2,400 square-mile area in Gila and Pinal counties. The District's fiscal year begins May 1 and ends April 30 ("Fiscal Year"). During the District's fiscal year ending April 30, 2002, the total peak load was 6,350 MW and the District provided electric service to approximately 772,791 customer accounts.

Until 1998, the District operated its electric system in a manner similar to many public utilities operating in the United States, where substantially all public utilities had a dedicated service area and managed their individual generating resources to meet all energy and capacity loads within that service area. In May 1998 the Arizona Legislature enacted the Electric Power Competition Act ("Competition Act"), authorizing competition within the service areas of certain public power entities, including the District, by other providers for the retail sale of power (capacity and energy) and certain administrative services. The Legislature also directed the Arizona Corporation Commission (the "ACC") to adopt similar rules for competition for investor-owned utilities operating within Arizona. Following considerable work and revised planning activities, on June 1, 2000, the District opened its entire service area to competition by electric service providers approved by the ACC. Although the District has experienced minimal competition within its service area since June 2000, the change to a competitive model has had an impact on the business of the District. The District expects that the Arizona Legislature may reconsider details of the Competition Act in its 2003 session. In addition, the ACC rules for competition by investor-owned utilities are being challenged in the courts and re-examined by the ACC. For additional information regarding competition see "Certain Factors Affecting the Electric Utility Industry—Competition in Arizona and California Energy Crisis" in the Official Statement.

Against this background of increased competition, the District is issuing the 2002 Series B Bonds as part of its Recapitalization Plan for the purpose of paying for capital improvements to the District's electric system. Since late 2001, the District has issued \$1,013,130,000 of refunding bonds as part of this program. In addition to financing capital expenses of the distribution system, goals of the plan include (i) to achieve financing and operating flexibility, (ii) to modify certain provisions of the Bond Resolution, (iii) to accelerate debt retirement, and (iv) to recognize debt service savings. As of August 14, 2002, the District had a total of approximately \$2,478 million of long-term debt outstanding, which includes \$375 million of tax-exempt commercial paper debt and reflects the defeasance of certain Revenue Bonds since the beginning of fiscal year 2003.

During the preparation of this Report, we have met with representatives of the District and reviewed certain materials provided to us by the District related to the current and projected future operation of the utility. Our review included consideration of the District's six-year projection of construction and other capital expenditures, projected power requirements and power resource additions, and projected operating results. Other factors that may influence the District's projected operating results were also reviewed.

In addition, as part of our role as consulting engineer to the District, R. W. Beck makes periodic visits to the District's generating and distribution facilities to generally assess their overall condition from an operation and maintenance perspective. These observations are visual, above ground examinations of selected areas which we deemed adequate to form the opinion herein and were not in the detail which would be necessary to reveal conditions with respect to safety or conformance with agreements, codes and permits, rules or regulations of any party having jurisdiction over said facilities.

This Report summarizes the results of our review to the date of the Report. Changed conditions occurring or becoming known after such date could affect the materials presented herein.

2003-2008 IMPROVEMENT PROGRAM

The District utilizes a six-year Improvement Program as a tool for financial and corporate planning. The Improvement Program, which is a moving six-year projection of all District construction and other capital expenditures, is revised and updated at least once each year to reflect the changing time period covered by the projections, the addition or deletion of projects, and changes in construction costs and schedules. The District's Improvement Program for fiscal years 2003 through 2008 ("2003-2008 Improvement Program") was prepared in early 2002 and includes amounts for improvements and additions to the District's generation, transmission and distribution systems and general plant, including facilities owned jointly by the District and others.

The total cost of the 2003-2008 Improvement Program, including capitalized administrative and general expenses, capitalized taxes and capitalized interest is projected by the District to be \$3,052.4 million. Projected costs of the 2003-2008 Improvement Program are shown in Table 1 and depicted graphically in Figure 1. The District has projected that this amount will be expended by fiscal years as follows: 2003-\$536.5 million; 2004-\$561.0 million; 2005-\$486.8 million; 2006-\$422.0 million; 2007-\$507.6 million; and 2008-\$538.6 million.

Included in the 2003-2008 Improvement Program is a contingency allowance which incorporates both dedicated and uncommitted funds. Dedicated funds are available for potential equipment to reduce air emissions at certain generating facilities, among other items. See the section titled Environmental Issues in the Report and the section captioned "Environmental Matters" in the Official Statement for a discussion of environmental issues.

Table 1
Salt River Project
Projected Costs of the 2003-2008 Improvement Program
(\$ millions)

Description	Total Cost
Generating Facilities (1)	939.8
Transmission System (2)	202.6
Distribution System (3)	979.0
Retail Sales and Services	76.1
Operational Support	157.0
Contingency Allowance and Risk Portfolio (4)	457.8
Subtotal	\$2,812.3
Capitalized Administrative and General Expenses	86.6
Capitalized Voluntary Contributions in Lieu of Taxes	87.5
Capitalized Interest	66.0
Total	\$3,052.4

- (1) Includes approximately \$345.5 million for the Santan Expansion Project; \$189.8 million for a new East Valley Power Project; \$99.8 million for continuing operations at Mohave beyond 2005; \$73.8 million for the PVNGS Units 1 and 3 steam generator replacement; \$50.7 million for other capital improvements at PVNGS including the Unit 2 steam generators; and \$180.2 million for other generation projects.

Footnotes continue on next page.

- (2) Includes approximately \$83.1 million for 69 kV AC transmission lines in various locations; \$2.0 million for expanding the Browning Substation; \$27.4 million for the 500-kV Southwest Valley Project; \$4.1 million for the 500-kV Southeast Valley Project; and \$86.0 million for other transmission projects. In addition the District has provided for \$95.3 million for its Browning Substation and its 500-kV projects in its Risk Portfolio.
- (3) Includes approximately \$224.2 million for new residential business; \$190.1 million for underground cable replacement; \$149.3 million for new distribution lines and improvements to existing lines; \$102.3 million for new commercial business; \$101.4 million for distribution station additions; \$72.0 million for municipal aesthetics programs; \$69.7 million for distribution transformers; and \$70.0 million for other distribution projects.
- (4) The Contingency Allowance and Risk Portfolio are amounts set aside to allow for changes in scope or unexpected capital expenditures that arise in a given year. This amount includes both allocated and unallocated contingency.

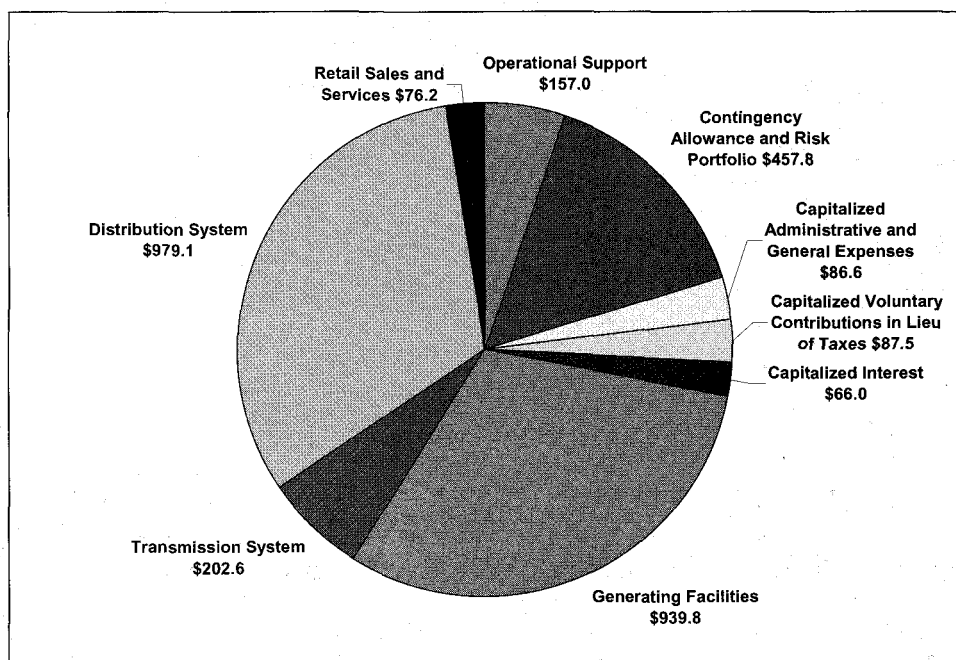


Figure 1: Projected Costs of the 2003-2008 Improvement Program

As of April 30, 2002, the District had available a general fund balance of \$800,765,000 in cash and temporary investments, a portion of which is projected to be applied against the costs of the 2003-2008 Improvement Program. The District plans to pay the remainder of such costs from future bonds to be subsequently authorized and issued, funds from operations (including funds to be derived through future rate increases) and other funds available for such purposes.

BUSINESS OF THE DISTRICT

The District is an agricultural improvement district organized in 1937 under the laws of the State of Arizona. The District operates the Salt River Project ("Project"), a federal reclamation project, under contracts with the Salt River Valley Water Users' Association ("Association"), pursuant to which it has assumed the obligations of the Association to the U.S. Government with respect to operation of the Project. See section captioned "The District" in the Official Statement for a discussion of the history and organization of the District and the Association.

During the fiscal year ended April 30, 2002, the District sold approximately 36,534 million kilowatt-hours of electric energy and received total operating revenues of approximately \$2,217,640,000. As of April 30, 2002, the District's net electric plant (electric plant in service less accumulated depreciation plus construction work in progress and net nuclear fuel) was \$4,128,990,196. During the three fiscal year period 2000 through 2002, approximately \$1,492,259,000 was made available from revenues to fund additions, betterments and improvements to utility plant and for other corporate purposes.

Power Requirements

The District's historical power requirements and energy sales reflect the growth that Arizona and Maricopa County have experienced over the past decade. Between 1991 and 2001, Arizona's population increased by approximately 41.2%, or an average annual increase of 3.5% per year. During the same period, the number of customer accounts served by the District increased by approximately 38.7%, or an annual average increase of approximately 3.3%, reflecting both the growth experienced by Arizona as a whole and the movement to the metropolitan areas in and adjacent to Maricopa County.

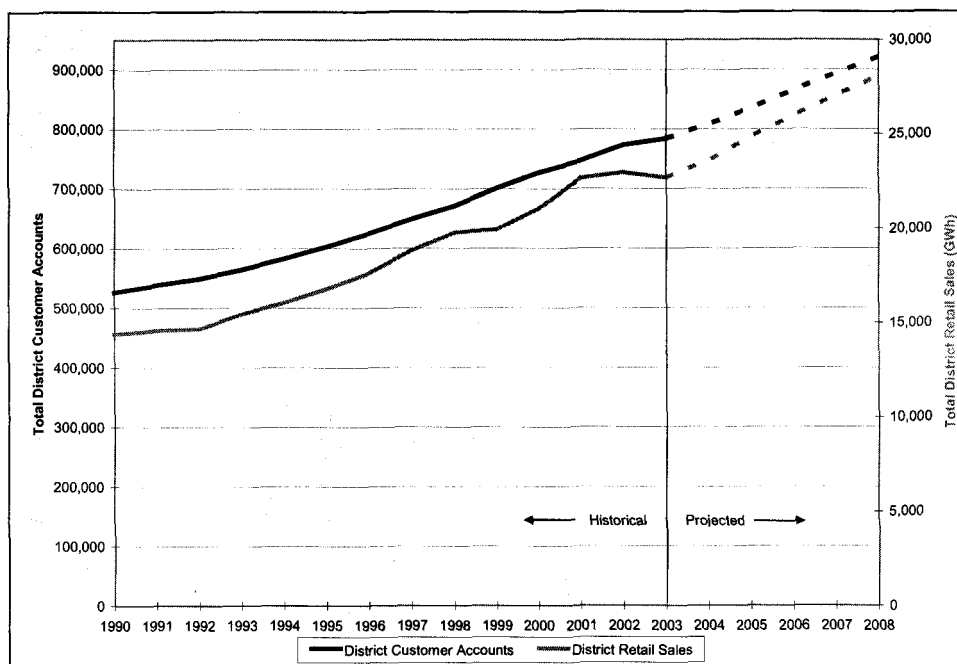


Figure 2: District Customer Growth vs. Energy Requirements

The District's historical and projected system demand and energy requirements for fiscal years 1997 through 2008 and the number of customer accounts served are summarized in Table 2.

Table 2
Salt River Project
District's Customers, Peak Demand and Energy Requirements

Fiscal Year Ending April 30

	Actual						Projected					
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
CUSTOMER ACCOUNTS (1)												
Residential	589,031	609,401	635,652	659,324	676,673	700,010	709,651	731,080	756,332	782,824	808,791	833,832
Commercial/Small Industrial	50,027	51,805	54,724	57,116	59,700	62,681	62,885	65,060	67,580	70,085	72,521	74,886
Large Industrial	21	20	20	21	21	22	21	21	21	21	21	21
Mines	21	23	18	22	22	21	20	20	20	19	19	19
Agricultural Pumps	347	357	350	316	329	344	319	315	311	307	303	299
Public/Private Lighting	7,613	7,787	8,001	7,893	7,877	7,929	8,882	9,098	9,314	9,530	9,746	9,974
Municipal	1,637	1,642	1,682	1,660	1,683	1,731	1,700	1,706	1,712	1,718	1,724	1,730
Interdepartmental	1	1	1	1	1	1	1	1	1	1	1	1
District Customer Accounts	648,698	671,036	700,448	726,353	746,306	772,739	783,479	807,301	835,291	864,505	893,126	920,762
Affiliated Retail (2)	0	0	684	654	0	0	0	0	0	0	0	0
Wholesale Sales (3)	58	60	64	63	62	52	-	-	-	-	-	-
Total Customer Accounts	648,756	671,096	701,196	727,070	746,368	772,791	783,479	807,301	835,291	864,505	893,126	920,762
PEAK DEMAND (MW)												
Distribution Area Demand (4)	4,246	4,244	4,666	4,657	5,002	5,164	5,300	5,500	5,720	5,940	6,170	6,400
Total Load (5)	5,427	5,086	5,534	5,725	6,205	6,350	5,690	5,895	6,122	6,349	6,587	6,445
ENERGY REQUIREMENTS (GWh) (6)												
Residential	8,047	8,559	8,574	9,105	10,211	10,561	10,149	10,468	10,867	11,300	11,738	12,162
Commercial/Small Industrial	6,371	6,726	7,130	7,703	8,139	8,303	8,499	9,000	9,674	10,203	10,727	11,244
Large Industrial	1,835	1,980	1,958	1,948	1,969	1,890	1,867	1,907	2,000	2,119	2,229	2,269
Mines	1,887	1,858	1,598	1,576	1,559	1,392	1,369	1,388	1,488	1,502	1,511	1,522
Agricultural Pumps	64	48	42	40	41	67	65	65	64	64	63	62
Public/Private Lighting	136	144	149	156	168	168	179	184	190	196	201	207
Municipal	378	376	392	398	400	422	445	450	460	469	478	483
Interdepartmental	104	97	101	149	157	151	110	110	106	107	106	106
District Retail Sales	18,822	19,786	19,944	21,075	22,643	22,953	22,682	23,572	24,849	25,959	27,052	28,054
Affiliated Retail	0	0	3,077	4,294	3,476	0	0	0	0	0	0	0
Wholesale Sales (7)	6,250	6,416	8,594	7,432	10,204	13,581	7,196	6,338	6,571	7,866	7,682	7,989
Total Energy Sales	25,073	26,202	31,615	32,801	36,323	36,534	29,878	29,910	31,420	33,825	34,734	36,043
Interchange Delivered	381	375	500	516	578	368	400	400	400	400	400	400
Wheeling Delivered (8)	199	176	208	206	174	192	200	200	200	200	200	200
System Losses	1,072	1,184	1,169	1,223	1,222	1,221	1,134	1,179	1,242	1,298	1,353	1,403
Energy for Pumped Storage	173	312	282	296	389	227	389	391	391	391	391	391
Total System Requirements	26,898	28,249	33,774	35,042	38,686	38,542	32,001	32,080	33,653	36,114	37,078	38,437

- (1) At fiscal year end. Customer account projections are from the District's service territory forecast, which includes customers in the District's service territory whether the energy is sold by the District or by competing Electric Service Providers. The District projects some customer accounts will be served by Electric Service Providers beginning in 2006, and that by 2008, 0.6% of the customer accounts will be served by other Electric Service Providers. Revenues from those customer accounts served by others are calculated based only on delivery charges and exclude charges for energy.
- (2) Affiliated Retail customers are retail customer accounts served by New West Energy. New West Energy no longer has retail customers and does not project to service retail customers in the future.
- (3) The number of wholesale customer accounts varies depending on availability and market conditions. The District does not make projections of wholesale customer accounts.
- (4) Distribution Area Demand includes Retail Demand in the District's service territory, remote losses, and Service Territory Reliability Obligation, which represents resources that the District needs to acquire to maintain system reliability while also providing load serving capability to other Electric Service Providers. The District's Distribution Area Demand normally peaks during July or August.
- (5) Total Load includes Distribution Area Demand and Wholesale Sales.
- (6) Energy requirements include energy sold by the District or by competing Electric Service Providers. The District projects some customer accounts will be served by Electric Service Providers beginning in 2006, and that by 2008 3.3% of the energy will be provided by other Electric Service Providers. Revenues from those customer accounts served by others are calculated based only on delivery charges and exclude charges for energy.
- (7) Includes APS Territorial & Contingent sales, summer preparedness, and trading with other utilities.
- (8) Projected amounts include transmission of power for amounts delivered by the District to others.

Projections of the District's future power and energy requirements have been developed based on detailed analyses that utilize generally accepted techniques and methodologies. The projections are produced by a number of statistical models that produce both short-term and long-term projections. These projections are based in large part on information produced by DRI-WEFA, a nationally recognized economic information company. We have reviewed the District's methodologies and, in our opinion, they provide a sound basis for projecting the future sales of energy to customers served by the District.

The District has continued to experience significant customer growth in recent years, adding over 101,000 new customer accounts during the past five years. The District's current assumption is that future customer account growth will be at a rate slightly lower than that experienced since 1996. A key factor influencing the District's future growth will be the population growth of Maricopa County. The population in the county over the next six years is projected to increase by approximately 760,000 persons, with the District's share of this new growth expected to be approximately 50%. This increase is projected to add approximately 148,000 customer accounts for the District to serve.

The current load projections are based on an assumption of moderate economic growth in the District's service territory during the next five years. Residential load projections are based primarily on an increasing number of residential customer accounts, along with minor increases in average per customer account usage levels. Based on the District's current projections, the average annual consumption per residential customer account is projected to increase approximately 0.4% per year over the forecast period.

Commercial loads have increased and are expected to continue increasing along with residential growth. As with the residential class projections, the District's projections of commercial and small industrial loads are based on an increasing number of commercial and industrial customer accounts, along with moderate increased energy usage levels on a per customer account basis. Large industrial energy sales are projected to increase moderately over the forecast period. The District's current load projections indicate that mining loads are also anticipated to experience moderate growth.

Key assumptions used by the District in preparing its most recent load projection include: (i) population growth in Maricopa County will outpace population growth in the rest of the United States; (ii) moderate national economic expansion will result in improved job creation in the District's service territory (about 4.5% annual growth through the year 2008 as compared with 5.3% annual growth from 1995 to 2001); (iii) economic growth in the Phoenix metropolitan area will remain moderate for the next few years at a rate higher than that of the national economy; (iv) the number of people moving to Arizona and Maricopa County will continue at a rate similar to that experienced during recent years; and (v) the District may lose approximately 3.3% of its energy sales in its distribution service area to alternative Electric Service Providers by 2008.

Electric Service Pricing

The District's Board of Directors has the exclusive authority to set the District's prices for electric service. Thus, price plans and the level of electric prices, along with any associated price setting policies, are set internally by the District and, except for the right of the Secretary of the Interior under the Association's Articles of Incorporation to review electric rates, are not subject to regulation by external agencies. The District is required to follow certain internal procedures for participation by interested persons in proposed changes to its price plans.

The District has maintained prices for electric service that have been sufficient to provide for all costs of ownership, operation and maintenance of its electric system and to provide substantial amounts for improvements thereto and for other corporate purposes. The District's current price plans reflect national ratemaking practices in a competitive environment. The cost to serve each customer group is projected based on historical and budgeted costs. Prices are seasonal in nature with summer prices higher than winter prices to reflect the higher cost of service during the summer period. The residential and general service prices include a monthly service charge that recovers certain fixed costs regardless of customer usage levels.

As a result of the development of a competitive environment in Arizona, the District has made certain changes to its price plans with the goal of providing more customer service options. The District's policies for setting prices in the competitive environment include setting prices for power that closely reflect costs, offering more service choices to customers, providing equitable prices within each class of service, and making gradual changes to its price plans. Time-of-day prices are available to various residential, commercial and industrial customers, and more closely track the cost of service, reduce consumption at the time of the system peak as well as provide the District's customers with increased choice of service.

The Competition Act introduced a competitive market for energy and related services in the District's service territory. The Competition Act required the District to provide an overall 10% reduction in its prices over a 10-year period, beginning on any date between January 1, 1991 and August 21, 1998. The Competition Act also allowed the District to recover its stranded generation costs through a temporary surcharge, or Competitive Transition Charge ("CTC"), through December 31, 2004.

The District has re-evaluated its price plans on an ongoing basis since passage of the Competition Act, and introduced unbundled price plans in December 1998. These price plans provided the basis for customers to purchase either bundled service (including energy and delivery) or unbundled service (including delivery only) from the District. The structure of these price plans was set up to allow customers to easily compare the District's prices with those of potential competitors. When the District introduced unbundled price plans in December 1998 it also reduced overall prices by approximately 5.4%. The District implemented earlier price decreases beginning in 1991, and with the 1998 price decrease fulfilled its obligation to reduce prices by 10%. Also in December 1998, the District implemented a CTC, which is levied on all retail energy sold within the District's distribution service territory. According to the Competition Act, as long as the CTC is in effect, the District's prices are capped at their December 30, 1998 level.

In May 2000 the District made further changes to its price plans, and implemented a further overall price decrease of approximately 1.0%. No changes to the CTC were made at that time. Effective December 31, 2001 the District again re-evaluated its prices and further unbundled its price plans. These changes have been reported by the District to be revenue neutral and the CTC was retained at its current level, with an expectation that the District will recover its estimated stranded costs on or before June 1, 2004. The District also re-introduced a fuel and purchased power adjustment mechanism, effective May 1, 2002. The District may use this mechanism to reflect changes to fuel and purchased power costs in its charges to customers. The District had such a mechanism until 1998, when it was eliminated in the process of preparing for competition. The price plans implemented in December 2001, including the fuel and purchased power adjustment mechanism, are presently in effect.

The District's projected operating results shown in this Report are based on prices currently in effect and include the anticipated recovery of projected increases in fuel costs. The District's management is studying the possible need for a future price increase.

The District's charges for electric service for its major customer classes are competitive with those of other major electric utilities in the Southwest. Table 3 provides a comparison of monthly electric bills, based upon representative monthly usage levels for the District's major rate classifications, with similar rate classifications for other major electric utilities in the Southwest.

Table 3
Salt River Project
Comparison of Monthly Electric Bills ⁽¹⁾

Utility	<u>Residential (2)</u>		<u>General Service (3)</u>		<u>Industrial (4)</u>	
	Summer	Winter	Summer	Winter	Summer	Winter
District.....	\$144.69	\$51.91	\$708.96	\$271.37	\$217,560.56	\$151,770.84
Arizona Public Service ⁽⁵⁾	\$161.06	\$70.47	\$870.82	\$424.79	\$206,384.80	\$206,384.80
Los Angeles Department of Water and Power....	\$176.68	\$83.30	\$980.59	\$485.40	\$308,866.84	\$301,446.84
San Diego Gas & Electric ⁽⁶⁾	\$268.41	\$109.61	\$1,596.02	\$672.35	\$444,314.42	\$386,786.37
Southern California Edison ⁽⁷⁾	\$232.78	\$105.06	\$1,529.58	\$678.69	\$657,715.91	\$467,100.31
Tucson Electric Power.....	\$159.47	\$68.08	\$954.36	\$495.59	\$258,357.30	\$248,929.14

(1) Based on rates effective March 1, 2002 including fuel clause adjustments.

(2) Based on monthly energy consumption of 1,700 kWh during the summer and 800 kWh during the winter.

(3) Based on peak demand of 30 kW and monthly energy consumption 9,000 kWh during the summer and peak demand of 15 kW and monthly energy consumption of 4,500 kWh during the winter.

Footnotes continue on next page.

- (4) The District, Los Angeles Department of Water and Power, San Diego Gas & Electric and Southern California Edison utilize time-of-day rates. The calculations assume 7,000 KW demand at an 80% load factor. Weekly billing periods are as follows.
- | | |
|--|---|
| District: | Summer – 35 hours on-peak, 49 hours semi-peak, 84 hours off-peak
Winter – 20 hours on-peak, 20 hours semi-peak, 128 hours off-peak |
| Los Angeles Department of Water and Power: | Summer and winter 20 hours on-peak, 30 hours semi-peak, 118 hours off-peak |
| San Diego Gas & Electric: | Summer – 35 hours on-peak, 45 hours semi-peak, 88 hours off-peak
Winter – 15 hours on-peak, 65 hours semi-peak, 88 hours off-peak |
| Southern California Edison: | Summer – 30 hours on-peak, 45 hours semi-peak, 93 hours off-peak
Winter – No hours of peak, 65 hours semi-peak, 103 hours off-peak |
- (5) Certain Association shareholders whose electrical usage is for domestic and ordinary farm purposes and who are served by Arizona Public Service are entitled, by the Association's Articles of Incorporation, to compensation for the difference between Arizona Public Service and District rates during periods when the cost of power using Arizona Public Service rates is 15% or greater than the cost of power using District rates. By contract with the Association, the District has agreed to compensate those Association shareholders for the difference in calculated bills.
- (6) The San Diego Gas & Electric energy charges are based on the Department of Water Resources cost of electricity (Electric Energy Commodity Cost – Schedule EECC). The San Diego Gas & Electric residential baseline is based on the daily kWh allowance for all-electric customers in climatic zone C3. This climatic zone has the highest baseline allowance and resulted in the lowest possible summer residential bill. Use of different climatic zones would result in increases of 5% to 13% in the summer and a 2% decrease to a 13% increase in the winter.
- (7) The Southern California Edison residential baseline is for all-electric customers based on Section H of Preliminary Statement Chart, Region 15. This Region has the highest baseline allowance, which results in the lowest possible residential bill. Use of different Regions would result in increases ranging from 14% to 63% in the summer and 0% to 41% in the winter.

Power Supply

Fiscal Year 2002 Resources. The District's existing power supply resources constitute a balance of base load, intermediate and peaking resources. This balance of resources has been developed to efficiently serve the daily and seasonal fluctuations that are inherent in the District's loads. The District's primary source of energy is from coal-fired plants which supplied approximately 43% of the District's total energy requirements during the fiscal year ended April 30, 2002. The District is a participant in Palo Verde Nuclear Generating Station ("PVNGS") Units 1, 2 and 3 which supplied approximately 13% of the District's total energy requirements during the same period. These resources are augmented with energy from District-owned or operated hydroelectric resources and gas-fired generating plants, the latter being located within the District's service area and used principally for system regulation, voltage control, as peaking units during periods of high loads and as reserves in the event of an emergency. In addition, the District purchases power and energy from others, including power and energy produced from federally owned hydroelectric resources on the Colorado River, under long-term contracts with the Arizona Power Authority ("APA") and the Western Area Power Administration ("WAPA") and also purchases non-firm energy from various sources when economically attractive to do so. The District has begun a program of marketing unused power resources and excess transmission capability as part of its Energy Risk Management Program.

The District's existing power supply resources are shown in Table 4 which was prepared by the District, including the net capability and the energy produced by each resource during the fiscal year ended April 30, 2002.

Table 4
Salt River Project
District's Power Supply Resources
(Fiscal Year 2002)

<u>RESOURCE</u>	<u>Capability</u>	<u>Net Production</u>		<u>Capacity</u> <u>Factor</u>
	<u>MW (1)</u>	<u>Amount</u> <u>MWh (2)</u>	<u>% of</u> <u>Total</u>	
One Hundred Percent Entitlement - Hydroelectric:				
Roosevelt Dam	36	61,249	0.2%	19.4%
Mormon Flat Dam	58	95,891	0.2%	18.9%
Horse Mesa Dam	126	191,637	0.5%	17.4%
Stewart Mountain Dam	13	33,697	0.1%	29.6%
Canal Plant (Crosscut)	3	4,729	0.0%	18.0%
Canal Plant (South Consolidated)	1	1,658	0.0%	18.9%
Subtotal	237	388,861	1.0%	
One Hundred Percent Entitlement - Thermal:				
Kyrene 1 - 2	106	117,788	0.3%	12.7%
Kyrene 4 - 6 (Gas Turbine)	165	129,490	0.3%	9.0%
Agua Fria 1, 2 and 3	407	1,194,648	3.1%	33.5%
Agua Fria 4, 5 and 6	219	282,100	0.7%	14.7%
Santan 1, 2, 3 and 4	368	1,258,939	3.3%	39.1%
Coronado Generating Station	785	5,072,396	13.2%	73.8%
Transportable Combustion Turbine	5	6,216	0.0%	14.2%
Subtotal	2,055	8,061,577	20.9%	
One Hundred Percent Entitlement - Renewables:				
Solar (3)	0	624	0.0%	n/a
Tri-cities Landfill - Gas (4)	0	15,139	0.0%	n/a
Subtotal	0	15,763	0.0%	
Participation Entitlements - Thermal				
Navajo Generating Station	489	4,032,848	10.5%	94.1%
Four Corners Generating Station Units 4 & 5	148	1,001,491	2.6%	77.2%
Mohave Generating Station	140	1,418,005	3.7%	115.6%
Hayden Unit 2	131	1,019,544	2.6%	88.8%
Craig Generating Station	248	1,981,725	5.1%	91.2%
Palo Verde Nuclear Generating Station	648	5,090,051	13.2%	89.7%
Subtotal	1,804	14,543,664	37.7%	
Purchases and Receipts (5)				
APA - Arizona Power Authority (6)	74	193,829	0.5%	29.9%
WAPA - Colorado River Storage Project (7)	112	535,738	1.4%	54.6%
WAPA - Parker-Davis Dams (8)	32	193,237	0.5%	68.9%
WAPA - CAWCD/Navajo Surplus (9)	645	2,306,169	6.0%	40.8%
AEPCO - Arizona Electric Power Cooperative	100	682,994	1.8%	78.0%
Reliant - Desert Basin (10)	0	1,622,963	4.2%	n/a
TEP - Tucson Electric Power Company	100	738,865	1.9%	84.3%
Others (11)	1,491	9,254,726	24.0%	70.9%
Subtotal	2,554	15,528,521	40.3%	
TOTAL	6,650	38,538,386	100.0%	

(1) Load capability during summer system peak. Winter capability may be greater.

(2) Actual net production during the fiscal year ended April 30, 2002. Energy for pumped storage is not deducted.

Footnotes continue on next page.

- (3) Solar (photovoltaic) units have a combined, nominal capability of 375 kW.
- (4) Tri-cities landfill generation was not yet in operation on the FY 2002 summer peak day.
- (5) Purchase and receipt capabilities vary month to month. Listed are the capabilities for the peak month.
- (6) Includes 34 MW wheeled for certain electrical/irrigation districts.
- (7) Includes 9 MW wheeled for certain electrical/irrigation districts.
- (8) 32 MW available from March through September and 23 MW available from October through February.
- (9) Net of CAWCD pumping load and losses totaling 94 MW that occurred coincident with system peak.
- (10) Reliant Desert Basin generation did not begin until after summer peak.
- (11) Short-term purchases.

The dams and a portion of the hydroelectric generation resources shown in Table 4, other than Canal Plant (South Consolidated), are owned by the U.S. Government and are being operated by the District under contract with the U.S. Bureau of Reclamation ("USBR"). The four large dams were originally constructed during the period from 1907 through 1930.

District Owned Resources. Coronado Generating Station. The station, which consists of two 350-MW coal-fired units located in east central Arizona, was completed in 1980 and is owned and operated by the District. The Coronado Generating Station has rail access to coal resources in Arizona and New Mexico as well as other Western States and has a railroad spur connection to the Santa Fe Railroad's main line.

Valley Units. All oil- and gas-fired units located at Kyrene, Aqua Fria and Santan are 100% owned and operated by the District. Each of the units has the capability to burn either oil or natural gas, although Santan has restrictions which limit operation to natural gas only. In all cases natural gas is presently the primary fuel. Depending on market conditions, operation of these units is generally limited to meeting daily peaking requirements, providing support for system regulation, maintaining voltage control in the District's service area and providing reserves. When economic conditions allow it, the District generates with gas for marketing power to others.

Craig Generating Station and Hayden Generating Station Unit 2. The District is a participant in Units 1 and 2 of the Craig Generating Station, which are 428-MW coal-fired units completed in 1981. The District is also a participant in the Hayden Generating Station Unit 2, a 262-MW coal-fired unit which was completed in 1976. These resources are located in western Colorado adjacent to and receiving coal fuel from surface mines that were developed primarily to supply fuel to these projects. The District owns 29% and 50% shares, respectively, of these resources. Public Service Company of Colorado (now a subsidiary of Xcel Energy) is the operating agent for Hayden and Tri-State Generation and Transmission Association, Inc. ("Tri-State") is the operating agent for Craig. Included in the District's 2003-2008 Improvement Program is \$28.3 million for the District's share of installation costs of fabric filter baghouses and other equipment on the Craig units. The total cost of these air quality control equipment improvements is estimated to be approximately \$123 million for all of the participants and these improvements are scheduled to be installed by December 31, 2003 on Unit 1 and June 30, 2004 on Unit 2.

Mohave Generating Station. The District owns 20% of the Mohave Generating Station which consists of two 790-MW coal-fired units located on the Colorado River in Clark County, Nevada that were completed in 1971. The District's 20% share reflects a purchase of 10% from the Los Angeles Department of Water and Power ("LADWP") on November 30, 2001. This acquisition was based on an assessment of market conditions at the time of exercising an option with LADWP. Coal for the Mohave Generating Station is supplied directly from a mine located on the Navajo Indian Reservation in northern Arizona through a coal slurry pipeline. Both units of the Mohave Generating Station are operated by Southern California Edison Company ("SCE").

The Mohave Generating Station is located in Laughlin, Nevada and has been the subject of a number of issues regarding air degradation, water for the slurry pipeline and coal supply. With regard to air quality issues, a settlement was reached between the Mohave Generating Station Participants and the Sierra Club regarding installation of pollution abatement equipment by the end of 2005 if the plant continues to operate on coal. Water for pumping the coal slurry has been provided by pumping ground water, which the Hopi Tribe has demanded be terminated by the end of 2005. In addition, the coal contract for the Mohave Generating Station also terminates in 2005. Although the District and others are working on resolving these issues, it is not clear whether agreements and implementation of those agreements can be reached in time to prevent the Mohave Generating Station from ceasing operations for some period of time beginning at the end of 2005. The District believes it can replace the lost energy from the Mohave Generating Station should this occur and also believes that the site could be converted to gas generation if generating with coal is no longer viable. For additional information concerning air quality issues at the Mohave Generating Station, see "Environmental Issues-Air Quality" in this Report.

Navajo Generating Station. The District owns a 21.7% interest in the three-unit 2,250-MW coal-fired Navajo Generating Station that was completed in 1976 and is located near Page in northern Arizona. The District operates the Navajo Generating Station on behalf of the participants of the Navajo Generating Station. Coal for the Navajo Generating Station is obtained from a surface mine at Black Mesa on the Navajo and Hopi Indian Reservations and delivered over a captive railroad. For additional information on the Navajo Generating Station, see "Environmental Issues-Air Quality" in this Report.

Four Corners Generating Station. The District owns a 10% interest in Units 4 and 5 of the Four Corners Generating Station, located in northwestern New Mexico, which was completed in 1970 and is operated by Arizona Public Service Corporation ("APS"). Units 4 and 5 each consist of a 785-MW coal-fired generating unit. Coal for the station comes from mines located on the Navajo Indian Reservation and is delivered to the station primarily by railroad.

Palo Verde Nuclear Generating Station. The Palo Verde Nuclear Generating Station ("PVNGS") Units 1, 2 and 3, in which the District owns a 17.49% share, began commercial operation in January 1986, September 1986 and February 1988, respectively. These pressurized water nuclear generating units have a maximum rating of 1,270 MW each and are located near Wintersburg, Arizona, approximately 50 miles west of Phoenix, Arizona. APS is responsible for operation and maintenance of the units on behalf of the other owners pursuant to a participation agreement.

The PVNGS units are at approximately the middle of their estimated useful life, and as expected, there have been some increased capital expenses for renewals and replacements to maintain the units. As part of this ongoing process the participants have agreed to replace the two Unit 2 steam generators, to purchase a spare set of steam generators for either Unit 1 or Unit 3, to replace all nine of the low pressure turbine rotors and to construct a dry cask storage area for spent fuel to begin in early 2003 and to continue beyond 2029. The District has included approximately \$73.8 million for its estimated share of replacing the Units 1 and 3 steam generators in its current capital improvement program as well as \$50.7 million for other capital projects.

The six participation projects in which the District owns an undivided interest with other utilities allow the District to obtain the economies of scale associated with larger generating units while at the same time realizing the benefits of diversification of resources such as increased operating flexibility and reduced reserve requirements. This diversification also significantly reduces the District's reliance on a single or limited number of fuel sources.

Consulting Engineer Resource Review Program. As part of the review process for preparing this Consulting Engineer's Report and to address the certificate requirements in Section 204 of the Bond Resolution, R. W. Beck carries out an ongoing review program for each of the District's major generating projects including both owned and participation projects. Also included is a review of the operation and maintenance of the District's distribution system. The District's generating resources and distribution system are visited on a triennial basis to allow a review of the ongoing maintenance program and to allow us to form an opinion as to the maintenance level at District facilities. We have found that the District provides reliable electric service, carries out a substantial ongoing maintenance program for its electrical utility properties and the District's properties are, in general, well maintained.

Purchased Resources. APA Hoover. The APA administers Arizona's allocation of the output from the federally owned Hoover Hydroelectric Project ("Hoover") on the Colorado River. The District and the APA have a contract with a term through September 30, 2017, under which the District purchases 37,300 kW of Hoover power. The power is delivered to the District's system over WAPA's transmission lines to interconnection points in the Phoenix area.

WAPA-CRSP and Parker-Davis. The District currently purchases firm power from WAPA under two separate contracts for hydroelectric power consisting primarily of the Colorado River Storage Project ("CRSP") and from the Parker-Davis Project. WAPA and the District have entered into a long-term contract for CRSP power which will expire in 2024. CRSP power will be reallocated in October 2004, resulting in a 7% reduction to existing recipients. The District is currently receiving approximately 112,000 kW during April through September and 53,000 kW during October through March under the terms of an amendment to the contract.

The District's allocation of Parker-Davis Project power is 31,700 kW of firm power during March through September and 22,500 kW during October through February. The contract covering this allocation is effective through September 30, 2008. In the projected operating results for the District, it is assumed that the current rates for power will continue in effect during the period of the projections.

Central Arizona Water Conservation District ("CAWCD"). The USBR holds certain entitlements for the purpose of supplying the power requirements of the Central Arizona Project. In the early 1990s the District entered into two purchase agreements for energy and capacity from the Navajo Generating Station that were surplus to CAWCD's power requirements for the Central Arizona Project ("Navajo Surplus"). In 1994 the District and CAWCD entered into a third agreement (incorporating the two previous agreements) which includes power from the Navajo Generating Station and two hydroelectric facilities. The District dispatches these resources and has an obligation to provide for CAWCD's pumping load for the Central Arizona Project. The peak load for the Central Arizona Project is projected to be 44 MW in fiscal year 2003, and the three resources have a capacity of approximately 726 MW. This purchase power agreement has a termination date of September 30, 2011.

In addition to the District's purchases of CRSP and Hoover power, the District wheels power from these federal projects for others.

Long-term Contracts. The District purchases power under long-term power supply contracts with Arizona Electric Power Cooperative, Inc. ("AEP") and Tucson Electric Power ("TEP"). As provided in the contracts, the District began purchasing 50 MW of firm power from each utility in June 1990 which increased to 100 MW of firm power from each utility in June 1991. These contracts extend through 2011 and 2012.

The District has entered into a ten-year contract with Reliant Energy Desert Basin, LLC ("Reliant") for the long-term purchase of 575 MW of capacity produced at Reliant's Desert Basin Generating Station located in Central Arizona. The District has contracted for the right to match any offer Reliant may receive for a long-term sale for periods beyond the ten-year term of its contract.

Future Resources. The District continues to review resource and contract options available to add to its mix of power resources. As part of this process the District has elected to pursue construction of two new resources and is evaluating its options for other resources.

Kyrene Generating Station. The District has received necessary operating approvals from the ACC and has completed construction of the Kyrene Expansion Project, a new wholly owned 250 MW natural gas-fired power unit at its existing Kyrene Generating Station. The unit is expected to begin commercial operation in October 2002. One condition of the permits ACC provides, is a limitation on production from the existing units on the site to an annual capacity factor of 1%.

Santan Generating Station. The District has also elected to proceed with the Santan Expansion Project, a wholly owned 825-MW gas-fired expansion project at its existing Santan Generating Station. Although the District has not obtained all of the necessary permits, it has obtained ACC approval of the certificate of environmental compatibility and does not anticipate any delays in obtaining the remaining permits. The project is scheduled for operation in 2006.

Study Projects. As mentioned above, the District is studying its options with regard to the Mohave Generating Station. In addition, the District is planning to participate in the joint development of two additional units at the Springerville Generating Station with UniSource Energy Development Company ("UniSource"). The two units would each be coal-fired, with a gross capacity of approximately 400 MW. The District is studying an option to purchase output of this project and operation would begin after 2004 if the project developer is able to satisfy certain development conditions. The District is also evaluating the possibility of acquiring an existing plant as merchant plants become available.

Planned Reserve Targets. The District plans the addition of new resource additions based on a 12% planning reserve target. Because of the restructuring of the electric utility industry and the significant financial exposure associated with carrying excess reserves, the District has decided that a 12% planning reserve target represents an optimal planning target that balances both economic and reliability factors.

Fuel Supply

Coal. During the fiscal year ended April 30, 2002, approximately 43% of the net energy generated and purchased by the District was produced from coal and the District plans to continue to rely on coal as its primary source of fuel into the foreseeable future. All of the coal being utilized by the District can be generally classified as low-sulfur coal having a sulfur content of less than 1% by weight and a heat content ranging from approximately 8,000 to 12,000 Btu per pound.

The District has an ownership interest in six coal-fired generating stations. The Navajo Project and the Kayenta and Black Mesa Mines, which supply fuel for the Navajo Generating Station and the Mohave Generating Station, are located on the Navajo Indian Reservation. Coal for the Four Corners Generating Station and the

Coronado Generating Station is also supplied from mines located on the Navajo Indian Reservation. In addition, the Kayenta and Black Mesa Mines are located in part on the Hopi Indian Reservation. Coal for Hayden Generating Station Unit 2 is supplied by the nearby mines of Seneca 2W and Yost. Coal for the Craig Generating Station is supplied from the Trapper Mine located near the station and from Colowyo Mine about 26 miles from the station.

Long-term coal supply agreements have been entered into for the Coronado Generating Station, Four Corners Generating Station, Mohave Generating Station, Navajo Generating Station, Hayden Generating Station Unit 2 and Craig Generating Station. Certain of the contracts contain provisions for extension beyond their initial term at the option of the participants. Table 5 sets forth the target and actual coal stockpile levels as of May 30, 2002, and the principal coal suppliers and contract expiration dates for the various coal supply contracts.

Table 5
Salt River Project
District's Coal Stockpile Levels and
Long-term Coal Supply Contracts

Project	Coal Stockpile		Coal Supply Contracts	
	Target-Level (full-load days)	Actual Level (full-load days)	Supplier	Contract Expiration
Coronado Generating Station	30	72	Pittsburg and Midway Coal Mining Co. (1) Peabody Coal Company (2), (3)	December 31, 2006 December 31, 2004
Four Corners Generating Station	-	-	BHP Minerals (4)	December 31, 2004
Mohave Generating Station	15	10	Peabody Coal Company (3), (5)	December 31, 2005
Navajo Generating Station	30	32	Peabody Coal Company (3)	April 30, 2011
Hayden Unit 2	30	31	Peabody Coal Company	December 31, 2011
Craig Station	30	25	Trapper Mining, Inc. (6) Colowyo Coal Company (6)	July 1, 2014 December 31, 2017

- (1) Base contract provides 50% of coal supply. This contract terminates on December 31, 2006. There are two additional contracts in place with Pittsburg and Midway, a supplemental contract that provides 14% and a spot market contract that provides 18% of the coal supply. Both contracts terminate on December 31, 2002. The supplemental contract will need to be replaced.
- (2) Contract provides 18% of coal supply until January 1, 2003, when the percentage increases to 36%.
- (3) Contract may be extended under certain circumstances.
- (4) This is a mine mouth operation and the stockpile is managed to minimal levels.
- (5) Mohave may cease operations for some period of time on or about January 1, 2006. See "Power Supply – District Owned Resources – Mohave Generating Station" in this Report for more information.
- (6) Trapper Mining, Inc. is owned by the Craig Generating Station Participants and is providing approximately 40% of the Craig Generating Station coal supply. Colowyo Coal Company also provides approximately 40% of the Craig Generating Station coal requirements. The remaining 20% is provided on a spot basis from one of the Craig Generating Station suppliers.

There are a number of disputes involving either litigation or arbitration concerning the coal supply agreements at the Navajo, Mohave, and Four Corners Generating Stations. For the District's comments see "LITIGATION–Coal Supply" in the Official Statement.

Fence Lake. In an effort to provide further assurance of a long-term supply of coal for its Coronado Generating Station, the District is pursuing development of coal reserves at a location known as Fence Lake in northwest New Mexico. The District has recently received the Federal Mining Plan Approval from the U.S. Department of the Interior to mine coal from the federal coal leases. This will allow construction of the mine to begin. Coal from this source could be used at the Coronado Generating Station beginning in early 2005, replacing coal from the McKinley Mine, near Gallup, New Mexico currently under a contract with Pittsburgh and Midway Coal Mining Company. The District expects to enter into an arrangement with a contract operator, if it elects to continue development of the property.

Natural Gas. The District is presently utilizing natural gas to fuel its oil- or gas-fired valley units and plans to continue to do so as long as gas remains financially viable.

The District has set up energy risk management policies and trading and storage strategies with regard to its gas purchases to minimize price, reduce credit risks from its counter parties, and to reduce operational risks while meeting the projected energy loads of its customers. The District is also studying other options to enhance its supply options and to provide more assurance on supply.

The District is a full requirements customer of El Paso Natural Gas Company ("El Paso") for transmission of gas to its generating resources at least through November 1, 2002. The District's rights are being challenged before the Federal Energy Regulatory Commission ("FERC"), where actions are being taken that may cause a re-allocation of the District's firm transmission rights. The impact of a loss of gas transmission could be significant to the District. For more information see "Litigation-Gas Supply" in the Official Statement.

Nuclear Fuel. The nuclear fuel cycle consists of four basic activities necessary for the manufacture of fuel assemblies. These activities are acquisition of uranium concentrates, conversion of the uranium concentrates to uranium hexafluoride, enrichment of the uranium hexafluoride and fabrication of the enriched uranium into fuel assemblies. After the fuel has been used in the reactor, it is removed for reprocessing or storage.

Nuclear plant operators have been moving to a new contracting arrangement for fuel known as Enriched Uranium Product ("EUP") where the elements of uranium concentrate, conversion and fabrication are all acquired from a third party as one product. APS anticipates purchasing fuel under this arrangement beginning in 2004.

The PVNGS participants have under contract 100% of the materials and services required to provide uranium concentrates through the year 2008, 100% of the requirements for conversion services through 2008, 100% of the requirements for enrichment services through 2010, and 100% of the requirements for fabrication services through the year 2016. These amounts are qualified in 2003 and 2004 for uranium ore and 2004 for conversion service due to strategic fuel design changes to allow a more efficient change to using EUP. The shortages are expected to be filled by January 1, 2003. Availability of all fuel services is generally good and APS anticipates securing additional fuel services when economic to do so.

After the nuclear fuel has been used in a reactor, it must be removed for reprocessing or disposal. Reprocessing facilities for commercial nuclear generating facilities do not exist in the United States. Pursuant to the Nuclear Waste Policy Act of 1982, APS has contracted with the Department of Energy ("DOE") for waste and spent fuel disposal services and was to have begun deliveries of spent fuel to DOE in 1998. DOE has announced that fuel shipments to long-term DOE disposal facilities cannot be accommodated until at least 2010 and PVNGS is not expected to be scheduled for spent fuel shipments until some time after 2028. As previously mentioned, APS has begun to prepare for dry cask storage on site, which is expected to begin in early 2003.

Power Supply Operations

Power Pools. The District is one of twelve Southwest Reserve Sharing Group ("SRSG") members which operate generation and transmission facilities in Arizona, California, Nevada, New Mexico, and Texas. The SRSG allows for sharing of contingency reserves among the participants in order to realize a more efficient and economic power system operation while maintaining the reliability of the interconnected system.

APS and the District entered into a Power Coordination Agreement which became effective March 13, 1956. The agreement, as modified, provides for the interchange of power and energy, more extensive coordination in planning, operation and development of the two electric systems and power transfers to fringe area customers. APS and the District also have a territorial agreement which clarifies the respective distribution service areas of each party.

The District, in conjunction with approximately 250 utilities, is participating in the Western Systems Power Pool ("WSPP"), a wholesale marketing arrangement approved for long-term operation by FERC on June 27, 1991. The WSPP members have access to an electronic bulletin board, on which are posted buy and sell quotes for a range of power services, including economy energy sales/exchanges, unit commitment sales, transmission service, and short-term firm capacity and energy sales/exchanges. Terms of the pool allow for limited pricing flexibility, with individual transactions to be negotiated between interested participants.

Transmission Arrangements

The District's hydroelectric facilities and gas- and oil-fired generating units are connected to the District's system by District-owned transmission and distribution facilities. Purchases from WAPA for CRSP and Parker-Davis Project power and from APA for Hoover Dam power are delivered to the District over WAPA's transmission system. WAPA also delivers power by displacement to the District from the District's participation in the Craig Generating Station, Four Corners Generating Station and Hayden Generating Station Unit 2 pursuant to a USBR-District Interconnection and Transmission Service Contract administered by WAPA. Delivery by displacement allows WAPA to deliver power to the District from the Glen Canyon facilities and for the District to deliver power from the Craig Generating Station, Four Corners Generating Station and Hayden Generating Station Unit 2 to WAPA under an exchange arrangement.

Transmission of capacity and energy for the District's other generating facilities, including Mohave Generating Station, Coronado Generating Station, Navajo Generating Station and PVNGS, is over transmission facilities associated with each project and facilities owned by the District and others. A separate arrangement with El Paso Electric allows the District to transmit directly a portion of the District's participation in the Craig Generating Station, Four Corners Generating Station and Hayden Generating Station Unit 2 to its service area as well as allowing it access to power available in the Four Corners area.

The District is working with other utilities in Arizona, New Mexico, Colorado, Wyoming and Texas to develop a regional transmission organization ("RTO") known as WestConnect RTO, LLC ("WestConnect"). FERC has proposed RTOs to facilitate development and operation of transmission on a regional basis. WestConnect is expected to strengthen reliability for customers and ease the transfer of electricity between regions. It will do so by focusing on transmission line reliability, non-discriminatory open access to use of the lines, support for a robust wholesale market, and governance that is independent of market participants. The District is continuing to evaluate its options with regard to participating in WestConnect, if approved by FERC.

In 2000, the District and other Arizona utilities first began studying long-term transmission needs. This work has evolved into the Central Arizona Transmission System ("CATS") for evaluating the mid and long-term high voltage transmission facility needs in central Arizona.

The first project that CATS is undertaking will be construction of a 500-kV transmission line from the Palo Verde area to SRP's Southeast Valley Receiving Station. The current planning contemplates an 80- to 100-mile line to be developed by SRP, TEP, APS and four electrical distribution utilities in Pinal County. Other future projects will also be considered by CATS. The District is also pursuing development of the Southwest Valley Project, consisting of a 36-mile 500-kV line from PVNGS to a new receiving station in the southwest valley to be known as the Rudd Receiving Station. This line is expected to be operational in June 2003.

Projected Loads and Resources

During the six-year period covered by the 2003-2008 Improvement Program, the District expects to meet its projected capacity and energy requirements from a combination of existing resources, existing purchases, and new purchases. Historically SRP, as well as many other utilities, planned new resource additions based on a 20% minimum reserve requirement. Beginning in 1998, the District began a process to review its reserve requirements and has subsequently established a reserve rate of 12%, which is reported to optimize economics and reliability. The District continually reviews various options, including selected curtailment of non-firm loads and other alternatives, to assure adequate resources are available to meet peak load in each year. The actual and projected loads of the District for fiscal years 2003 through 2008 and the resources available to meet such requirements are presented in Table 6.

Table 6
Salt River Project
District's Projected Peak Load Requirements and Resources
Fiscal Years 2003-2008
(Peak Day in August – MW)

<u>REQUIREMENTS</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Retail Demand (1)	5,300	5,500	5,720	5,881	6,091	6,295
Service Territory Reliability Obligation (2)	0	0	0	59	79	105
Subtotal -- Distribution Area Demand	5,300	5,500	5,720	5,940	6,170	6,400
APS Territorial and Contingent Sales	343	350	357	364	372	0
Other Firm Loads and Sales						
CAWCD	44	42	42	42	42	42
City of Safford	3	3	3	3	3	3
Subtotal -- Wholesale Sales	390	395	402	409	417	45
Surplus Sales (3)	0	0	0	0	0	0
Total -- Peak Load (4)	5,690	5,895	6,122	6,349	6,587	6,445
<u>RESOURCES (5)</u>						
Hydro Resources	263	263	263	263	263	263
Thermal Resources:						
Coal-Fired Units	785	785	785	785	785	785
Gas/Oil-Fired Steam	513	513	513	513	513	513
Combustion Turbines	384	384	384	384	384	384
Combined Cycle	368	368	368	368	368	368
Subtotal -- Thermal Resources	2,050	2,050	2,050	2,050	2,050	2,050
Distributed Generation and Renewables						
Solar	4	4	4	4	4	4
Participation Resources:						
Coal-Fired Units	1,296	1,296	1,296	1,296	1,316	1,316
PVNGS	644	640	654	651	652	650
Subtotal -- Participation Resources	1,940	1,936	1,950	1,947	1,968	1,966
Firm Purchases (6)	689	469	444	344	344	344
Contingent Purchases	1,391	1,390	1,390	1,390	1,390	1,390
Resource Additions (7)	253	453	703	1,103	1,353	1,178
Total Resources	6,590	6,565	6,804	7,101	7,372	7,195
Resources in Excess of Total Peak Load	900	670	682	752	785	750
Planned Reserve Percentage (8)	18.3%	12.6%	12.2%	12.7%	12.8%	12.4%

- (1) Includes retail customer load that the District continues to serve within its native distribution service territory.
- (2) The service territory reliability obligation represents resources that the District needs to acquire to maintain system reliability while also providing load serving capability to other Electric Service Providers.
- (3) Projected amounts are not shown as amounts will vary depending on energy availability and market conditions.
- (4) Ten minute interruptible and instantaneous interruptible loads (62.1 MW and 38.5 MW, respectively, in FY 2003) are not included in peak load.
- (5) Resources shown represent rated capacities of units either owned by or under contract by the District. Actual resources available to the District to meet total peak load vary due to outages and other factors.
- (6) Includes existing Parker-Davis and CRSP allocations, AEPPO and TEP purchases of 100 MW each, and other firm purchases.
- (7) Includes Kyrene Expansion Project, Santan Expansion Project, and varied, new and renewable resources.
- (8) Planned reserve percentage is calculated as the ratio of Resources in Excess of Total Peak Load plus Surplus Sales divided by the sum of Distribution Area Demand plus Wholesale Sales less Firm Purchases less certain APA and APS loads served by the District for which reserves are not carried (95 MW in fiscal years 2003 through 2007; and 33 MW in fiscal year 2008).

Other Business Activities

Papago Park Center. Over a period of years, the District accumulated land, generally surrounding its administrative offices in Phoenix across the Salt River from Tempe, for District use. A portion of the property was used in 1990 for construction of a 360,000-square-foot office building, which is being used for information systems, planning, marketing and financial services. The District does not have any current plans for future development of this site and the 2003-2008 Capital Improvement Plan does not include any capital for Papago Park Center purposes.

A substantial portion of the remaining property has been leased under a 100-year agreement to Papago Park Center, Inc. ("PPCI"), a wholly owned, incorporated, and taxable subsidiary of the District. PPCI has the goal of managing the private development of this lease area through sub-leases and creating a revenue source for the District. Private development through PPCI has steadily increased since 1996 and for the fiscal years 2000 and 2001 represented \$1.5 million and \$1.6 million, respectively, of revenue to the District. For additional information regarding Papago Park Center, see "The District - Papago Park Center" in the Official Statement.

New West Energy Corporation. In 1997, the District established a wholly owned, taxable subsidiary, New West Energy Corporation ("New West Energy"), to market, at retail, energy available to the District that was surplus to the needs of its retail customers, and energy that might have been rendered surplus by retail competition in Arizona. One of the additional purposes was to gain experience in a competitive market so that the District would be better prepared for competition in Arizona. New West Energy has achieved that goal, has now reduced its staff, and is focusing on supporting the District's energy services activities in Arizona. The revenues of New West Energy are consolidated with the District's, however in FY 2002, they represented approximately \$1.1 million. For additional information see "The District-New West Energy Corporation," in the Official Statement.

Telecommunication Activities. The District has installed approximately 20,000 strand-miles of fiber cable to support communication activities for its water and electric utility businesses. At the present time approximately two-thirds of the available capacity in this system is surplus to its needs. The District has entered an arrangement with Electric Lightwave, Inc. ("ELI") to market this excess and was receiving about \$4 million per year in revenue from this activity. The District and ELI are currently discussing whether to continue their business relationship.

Because the District has an extensive electrical distribution system, it has numerous locations that are of interest to wireless telecom providers for transmitter sites. The District has been actively pursuing this as a business opportunity and now has approximately 100 sites where transmitters or other telecom equipment have been located. These sites are generating approximately \$4 to \$5 million per year in revenue and the District anticipates increasing this revenue stream.

Supply and Trading Operations

The District has set up a separate group to provide supply and trading services for its electric utility activities. The goals for this unit include: (i) to meet native loads, (ii) to obtain sufficient power at the lowest possible cost, (iii) to manage the risks associated with these activities and (iv) to optimize the value of District assets. This group is an essential component to the success of the District and senior management and the Board of Directors each play a role in assuring its success. Review, evaluation, or analyses with respect to the energy risk management practices of the District are beyond the scope of this Report. We have not been engaged to conduct, and in fact have not conducted, any independent review, evaluation, or analysis in this regard for purposes of this Report. For additional information see, "Certain Factors Affecting the Electric Utility Industry-District's Response to Utility Industry Developments" in the Official Statement.

Risk Management

Electric utilities, including the District, had difficulty during the mid-1980s obtaining insurance equivalent to that historically available, and paid substantially larger premiums for reduced coverage when insurance was available. Since then, industry mutual companies have been successful in meeting the electric utility industry's insurance needs not addressed by the commercial market, including those of the District. The District has an ongoing risk management program to address its concerns in the areas of handling hazardous wastes, flood inundation, and its insurance requirements, among other issues. For additional information concerning risk management and insurance issues, see "The Electric System-Insurance and Liability Matters" in the Official Statement.

Litigation

In the normal course of its business, the District becomes involved in a number of legal actions that could potentially affect the District's operations. The District's management believes the ultimate resolution of currently identified legal actions will not have a significant adverse impact on the District's financial position except as noted otherwise in the Official Statement. For information on legal actions not addressed in this Report, see "Litigation" in the Official Statement and the associated cross referenced sections.

ENVIRONMENTAL ISSUES

Air Quality

The District is subject to federal, state and local standards for air quality at all of its power plant locations, as are all other utilities in the United States. Much of this regulation is the outgrowth of the Clean Air Act, as amended (the "CAA") by acts of Congress. Given the changing nature of the rules and regulations that govern air pollution and the proximity of the District's power projects to national parks, monuments, wilderness areas and to Indian reservations, it may not be possible for the District to always be in complete compliance or to always be able to obtain all of the required permits. In some cases it may not be economical to design, construct and operate air control equipment for new or existing units in order to satisfy requirements in certain situations.

As an example of the ongoing changes, Congress is again considering new legislation as part of the CAA that could affect all power plants, including the District's. Depending on the final version of these changes and implementation of these changes by the Environmental Protection Agency (the "EPA"), the State of Arizona and local jurisdictions, the changes could affect the cost of both producing as well as purchasing power. While it is too early to estimate any impact on the District's costs, the changes could be material. For additional information see the District's comments on environmental matters in the Official Statement. To date, these changing requirements have resulted in requirements for the District to pay for its share of scrubbers at the Navajo Generating Station, baghouses and scrubbers at the Craig and Hayden Generating Stations. Additional pollution abatement equipment will be necessary at the Mohave Generating Station pursuant to a consent decree with EPA, among other items. For additional information see "Business of the District-Power Supply" in this Report.

Navajo Nation

The Navajo Generating Station and the Four Corners Generating Station, Units 4 and 5 are located on the Navajo Indian Reservation. Certain environmental laws, resulting from congressional acts, allow Indian tribes to be treated as states for purposes of administering programs under these acts. For the District's comments on these activities, see "The Electric System-Environmental Matters-Navajo Generating Station and Four Corners Generating Station Units 4 and 5" and "Litigation-Environmental Issues-Navajo Environmental Laws" in the Official Statement.

Waste Management

Substantial federal, state and local laws and regulations regarding various types of waste management have been enacted. These laws and regulations, such as the Resource Conservation and Recovery Act, the Comprehensive Environmental Response Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization Act and a comprehensive waste management law enacted in 1991 by the Arizona Legislature, impose certain reporting requirements and strict liability for cleanup costs and damages resulting from hazardous substance release or contamination, regardless of time or location, on those who generate, transport, store, treat and dispose of hazardous wastes. Many normal activities in connection with the generation and transmission of electricity generate both non-hazardous and hazardous wastes. The District has established a waste management plan to ensure compliance with environmental laws and regulations, and independently assesses its properties to determine whether they are in compliance with current rules and regulations. In addition, environmental health and safety audits are performed and reviewed by the general manager and his executive staff members. For further discussion, see "The Electric System-Environmental Matters-Waste Management" in the Official Statement.

Water Issues

There is an extensive federal and state of Arizona regulatory system for governing water quality, including a permit program for discharges that could affect groundwater and a superfund program to address groundwater contamination. Although the Association is responsible for operation of the Project's irrigation system, as the

District's agent, the District is responsible for its facilities as possible sources of contamination to various water sources. As an example, the District has been identified in preliminary reports as a possible source of contamination at some of the eight superfund sites located within the greater Phoenix area. The District also has responsibility for water supply issues in connection with its various power projects. Additionally, expected changes to arsenic control regulations may also affect the District's operations because of its wells that feed the canal system, which may exceed the proposed requirements. The District is actively managing all of its water activities, including that of water activities addressed in "Litigation-Water Rights" in the Official Statement, to minimize its liability exposures and to allow continued operations at all of its facilities. In discussions with the District's management, no activities were identified that would have a material effect on the District's financial results.

For additional information see "The District-Irrigation and Water Supply System," "The Electric System-Environmental Matters-Water Quality," and "Litigation-Water Rights" in the Official Statement.

Endangered Species Act

The ability to fill the Roosevelt Dam is currently being limited by the southwestern willow flycatcher ("Flycatcher"), which has taken up summer nesting within the habitat of the reservoir lakebed. The Flycatcher is protected under the Endangered Species Act, which Act is preventing the flooding of this habitat. The District is working with the United States Fish and Wildlife Service to remedy this restriction on its operations and has reserved funds for this purpose. To date this has not restricted use of the dam because weather conditions have not provided sufficient water to make this an issue.

SUMMARY OF OPERATING RESULTS

This section contains projections of the revenues and expenses of the District. These projections are based on the District's assumptions and expectations as of the date of this Report. Actual results may differ materially from those forecast and accordingly, no assurances are given and no representations are made that any of the assumptions are correct or that projections will correspond to actual results. See the section entitled "Considerations and Assumptions" for further discussion of the basis on which the Projected Operating Results were developed.

The District's actual and projected operating results for fiscal years 1999 through 2008 are summarized in Table 7 on a cash basis, including information for 2003 through 2008 based on its FY 2003 Financial Plan. Additionally, the District has also prepared similar information for the period 1999 through 2004 on an accrual basis, and has addressed issues arising from implementation of a new accounting standard (Statement of Accounting Financial Standards 133) resulting largely from certain District gas supply hedging activities. For more information see "Table 14 - Application of Revenues and Pro Forma Coverage of Debt Service Requirement" in the Official Statement and in the notes to the Combined Financial Statements in Appendix A to the Official Statement.

In developing the 2003-2008 Improvement Program, the District balanced its capital and operational requirements and a desire to complete its Recapitalization Plan with its financial objectives. The District's major financial objectives are: (i) to maintain sufficient liquidity and to continue increasing the amount of internally generated funds; (ii) to continue reducing the debt ratio; (iii) to keep retail prices of power at competitive levels; and (iv) to maintain average annual debt service coverage ratios that are higher than required to allow future financings. The District annually reviews its Improvement Program and has proactively modified its Improvement Program as required to meet its financial objectives. In order to meet its financial objectives, it may be necessary for the District to increase its prices during the 2003 to 2008 period. Projected future operating revenues do not include any changes to the District's prices in its current price plan from those that became effective on December 31, 2001.

Debt service amounts shown in the following table are for bonds and other obligations that are presently outstanding and for the 2002 Series B Bonds as provided by the District. In order to implement the 2003-2008 Improvement Program, it will be necessary for the District to issue additional bonds which the District contemplates issuing at regular intervals and in amounts that, together with other available funds, will be adequate to pay the costs of the 2003-2008 Improvement Program. Debt service on such future bonds is not included in the projected amounts shown herein.

The District's Projected Operating Results depend upon a number of assumptions including economic conditions within its service area, availability of its power resources, projected capacity and energy requirements, escalation rates, future bonding assumptions, and other factors. As the electricity markets have evolved, the District has found that its financial projections are more heavily influenced by the price of gas and the market rate for wholesale electric power than they were in the past. Approximately 15% of the District's Total Operating Revenues, and 66% of the District's net revenues, before contributions from interest earnings and other income, for

the next six-year period covered by the 2003 Financial Plan can be attributed to the net effects of its wholesale purchases for District loads and its surplus sales activities. These wholesale activities and resultant revenues are dependent on projected fuel prices and competitive market conditions. However, should a substantial reduction in gas prices and market rates for power occur, the District's loss of net revenue would be mitigated by lower operating costs, or potentially lower costs resulting from displacement of its own generation with market power purchases.

As part of our review process, we independently reviewed the impact of alternative gas prices and wholesale market rates on the District's Projected Operating Results. This review was designed to examine the impact of differences in certain assumptions and methodologies on the District's overall Projected Operating Results, and it should not be viewed as a measure of the range of changes that might be experienced should actual conditions vary from those assumed herein. This alternative analysis was prepared based on R. W. Beck projected rates at the Palo Verde trading hub for the District's fiscal years 2003 through 2008, as a comparison with the District's analysis. In comparing our alternative projected operating results with the District's Projected Operating Results, we found that a number of differences arose due to: (i) differences in modeling Arizona as one versus three zones for transmission constraints, (ii) the treatment of dispatch cost adders during periods of scarce resources, (iii) a difference in the year breakeven occurs for new resources of 2008 versus 2009 and (iv) a difference on the order of approximately 5% in the level of available resources to meet loads.

The net impact of these differences was that the R. W. Beck projections result in a market price forecast that is lower than the District's forecast and lower than broker quotes, as reported by the District. In aggregate, these differences in assumptions resulted in an average reduction of approximately 5% in Total Operating Revenues and 39% in Combined Net Revenues for the District when compared to the Projected Operating Results for the six-year period shown in the District's 2003 Financial Plan. The estimated reductions became approximately 2% and 12%, respectively when the 2003 Financial Plan was updated by the District to reflect changes in natural gas price and market price projections that have occurred since the adoption of the 2003 Financial Plan.

Based upon our review, we found the analysis and methodologies used by the District to fall within an acceptable range of reasonable industry practices used for purposes of making financial projections for the District's Projected Operating Results as shown herein.

Table 7
Salt River Project
District's Historical and Projected Operating Results
(\$000)

	Fiscal Year Ending April 30									
	Actual				Projected					
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Operating Revenues:										
Retail Sales of Electricity (1) . . .	\$1,425,497	\$1,523,561	\$1,895,339	\$1,482,316	\$1,453,129	\$1,506,221	\$1,429,115	\$1,480,800	\$1,540,654	\$1,588,796
Wholesale Sales of Electricity . . .	252,958	232,787	1,086,043	673,981	296,514	284,717	290,188	352,421	351,924	377,411
Miscellaneous Electric Revenues . . .	26,149	34,067	38,966	61,343	60,432	70,392	75,248	82,739	91,144	98,314
Electric Operating Revenues	\$1,704,604	\$1,790,415	\$3,020,348	\$2,217,640	\$1,810,075	\$1,861,330	\$1,794,551	\$1,915,960	\$1,983,722	\$2,064,521
Operating Expenses (2):										
Production Expenses-										
Fuel (3)	\$259,854	\$275,683	\$507,738	\$373,660	\$307,480	\$343,305	\$376,293	\$446,542	\$469,784	\$507,620
Purchased Power	338,624	368,628	914,646	713,797	292,485	280,036	283,172	266,471	278,654	267,704
Subtotal - Production Expenses . . .	\$598,478	\$644,311	\$1,422,384	\$1,087,457	\$599,965	\$623,341	\$659,465	\$713,013	\$748,438	\$775,324
Other Operating Expenses-										
Generation O&M	\$156,103	\$192,963	\$202,675	\$198,552	\$225,289					
Transmission	20,503	28,750	34,294	40,572	52,120					
Distribution	59,967	76,658	68,639	73,676	72,891					
Customer Accounts	40,900	62,023	104,654	56,046	60,016					
Customer Service and Information .	16,347	25,223	36,922	38,947	42,172					
Sales Promotion	6,079	7,702	2,648	1,848	1,556					
Administrative and General	121,630	78,581	94,209	72,313	88,736					
Ad Valorem Tax (4)	2,855	4,959	4,475	5,220	5,651					
Other Operating Costs	(35,116)	(72,790)	30,957	(36,704)	(20,254)					
Subtotal - Other Operating Expenses	\$389,268	\$404,069	\$579,473	\$450,470	\$528,177	\$554,602	\$566,718	\$597,145	\$601,174	\$601,222
Payroll Tax	17,878	21,115	20,225	19,689	20,622	18,882	19,297	19,730	20,109	20,397
Electric Operating Expenses	\$1,005,624	\$1,069,495	\$2,022,082	\$1,557,616	\$1,148,764	\$1,196,825	\$1,245,480	\$1,329,888	\$1,369,721	\$1,396,943
Net Operating Revenues	\$698,980	\$720,920	\$998,266	\$660,024	\$661,311	\$664,505	\$549,071	\$586,072	\$614,001	\$667,578
Interest & Other Income (Net) (5) . .	29,381	28,870	40,663	28,406	8,829	7,765	1,896	3,412	1,636	5,048
Revenues Available for Debt Service . .	\$728,361	\$749,790	\$1,038,929	\$688,430	\$670,140	\$672,270	\$550,967	\$589,484	\$615,637	\$672,626
Debt Service Requirements:										
Outstanding Revenue Bonds (6) . . .	\$227,309	\$223,501	\$220,132	\$222,862	\$275,960	\$348,789	\$341,570	\$317,052	\$147,891	\$175,357
2002 Series B Bonds	-	-	-	-	14,300	30,549	28,079	28,079	28,079	28,079
Total Revenue Bond Debt Service . . .	\$227,309	\$223,501	\$220,132	\$222,862	\$290,260	\$379,338	\$369,649	\$345,131	\$175,970	\$203,436
Debt Service Coverage Ratio (7)	3.20	3.35	4.72	3.09	2.31	1.77	1.49	1.71	3.50	3.31
Funds After Debt Service	\$501,052	\$526,289	\$818,797	\$465,568	\$379,880	\$292,932	\$181,318	\$244,353	\$439,667	\$469,190
Plus:										
Investment Income on Construction Fund	4	0	0	1	7,329	0	0	0	0	0
Less:										
Voluntary Contribution in Lieu of Taxes	(69,890)	(63,271)	(56,048)	(59,617)	(61,712)	(76,833)	(80,314)	(80,733)	(86,521)	(88,576)
Contribution to Water Operations . . .	(42,987)	(40,924)	(47,469)	(32,219)	(43,000)	(39,412)	(42,118)	(43,648)	(44,629)	(44,956)
Water for Power (8)	(4,122)	(5,361)	(4,090)	(9,397)	(7,332)	(7,407)	(7,407)	(7,407)	(7,407)	(7,407)
Balance Available for Renewals and Replacements to Plant and Other Corporate Purposes	\$384,057	\$416,733	\$711,190	\$364,336	\$275,165	\$169,280	\$51,479	\$112,565	\$301,110	\$328,251
Potential Early Debt Redemptions (9) . .	-	-	-	-	\$464,190	\$150,000	\$0	\$0	\$0	\$0
Adjusted Balance Available for Corporate Purposes	\$384,057	\$416,733	\$711,190	\$364,336	(\$189,025)	\$19,280	\$51,479	\$112,565	\$301,110	\$328,251

- (1) Actual revenues from sales of electricity through 2002 are based on rates then in effect. Projected revenues are calculated using the base rates currently in effect on January 1, 2002.
- (2) Excludes charges for depreciation, contributions in lieu of taxes on properties owned by the District located in Arizona, voluntary contributions in lieu of taxes on railroad facilities, and water for power.
- (3) Adjusted for depreciation on railroad property and voluntary contributions in lieu of taxes.
- (4) Ad valorem taxes apply to out-of-state properties owned by the District.
- (5) Amounts reflect interest income less construction interest income and other interest expense.
- (6) Projected Debt Service based on Current Outstanding Bonds after Defeasance.

Footnotes continue on next page.

- (7) Calculated by dividing "Revenues Available for Debt Service" by "Total Debt Service." The fiscal year 2004 projected debt service coverage ratio is lower than historical years and reflects the effects of the District's Recapitalization Plan that accelerates debt service payments for certain Revenue Bonds. The completion of the Recapitalization Plan is expected to; (i) permit the District to achieve additional financing and operational flexibility; (ii) enhance its ability to compete if competition develops in Arizona; and (iii) allow the debt service coverage ratio to return to higher levels beginning in fiscal year 2006.
- (8) Revenue to the Association for water used in the production of energy at District hydroelectric facilities.
- (9) The District has included the amounts shown in its 2003 Financial Plan amounts to be used for early debt redemptions. The actual amount for fiscal year 2003 as of August 14, 2002 was approximately \$429,717,000, including premiums, to redeem approximately \$408,045,000 of outstanding debt. These amounts were provided from the District's General Reserve Fund. The \$150 million amount in 2004 reflects the mandatory redemption of existing commercial paper debt.

CONSIDERATIONS AND ASSUMPTIONS

In the preparation of this Report and the opinions that follow, we have made certain assumptions with respect to conditions which may occur in the future. In addition, we have used and relied upon certain information and assumptions provided to us by sources which we believe to be reliable. We believe the use of such information and assumptions is reasonable for purposes of this Report. However, some assumptions will invariably not materialize as stated therein, as summarized below, or may vary significantly due to unanticipated events and circumstances. Therefore, the actual results can be expected to vary from those projected to the extent that actual future conditions differ from those assumed by us or provided to us by others.

The principal considerations and assumptions made by us and the principal information and assumptions provided to us by others include the following:

1. The number of District electric system customers will increase at a compounded average annual growth rate of approximately 3.3% per year during the 2003 to 2008 period. This rate of increase is lower than that actually experienced during the 1996 to 2002 period of approximately 3.6% per year. District system sales, however, will increase at a compounded average annual growth rate of approximately 4.3% per year during the 2003 to 2008 period. This rate of increase is also similar to that actually experienced during the 1996 to 2002 period of approximately 4.0% per year.

2. The District's projections of future sales of electric energy for the fiscal year period 2003 through 2008 assume local economic growth that will be higher than the national economy, Maricopa County population growth that will outpace population growth in the rest of the United States, seasonal weather conditions corresponding to average historical conditions, and a continued increase in residential and commercial construction.

3. Historical and projected revenues from future sales of electricity for the period from May 1, 2002 through April 30, 2008 are based on rates in effect on January 1, 2002. For revenues in the period prior to May 1, 2002, revenues have been based on rates in effect during the period shown.

4. The cost of coal delivered to the power plants has been projected by the District through fiscal year 2008 based upon DRI-WEFA projections of various indices that are used to escalate prices under the existing contracts, and certain other factors. The combined effects of the various contract escalation components and other coal contract activities are expected to result in relatively stable coal prices for the District over the 2003 to 2008 period.

5. Natural gas will be available for power plant use throughout the 2000s, subject to short-term disruptions, and will be the principal source of fuel for the District's oil- and gas-fired units. Annual changes to natural gas prices are assumed by the District to range on average from -12.1% to 8.5% during the 2003 to 2008 period. By the end of 2008 the District expects that there will be very little change in natural gas prices from those currently in effect.

6. Fuel costs for PVNGS have been projected by the District based on existing contracts for Enriched Uranium Product ("EUP"), or the various components of EUP, and the existing contract for fabrication of nuclear fuel assemblies. On average these fuel costs are projected to decrease 0.5% to 2.1% per year during the 2003 to 2008 period.

7. District construction costs are assumed to escalate at rates of 1.1% to 2.9% per year through fiscal year 2008.

8. Operation and maintenance expenses for fiscal years 2003 through 2008 excluding fuel, taxes and tax equivalents, have been projected by the District to escalate at rates varying from 1.6% to 2.9%. Fuel cost projections for fiscal years 2003 through 2008 are based on a number of factors including projected plant operating

levels, fuel contract terms and escalation rates by fuel type. Projected taxes and tax equivalents for this period are based on existing and projected tax rates.

9. The District's capital costs for major improvements to the dams and storage facilities owned by the U.S. Government and operated by the District have not been included in its 2003 to 2008 Improvement Program; however the District's projected operating results for the period 2003 to 2008 reflect the costs of the contemplated improvements.

10. The District will sell surplus energy in the 2003 to 2008 time period based on the assumptions discussed herein with regard to availability of resources, projected market prices and the projected price of natural gas.

11. Production and fuel expenses, which have been projected by the District assuming normal water conditions and availability of generating units, will be as planned.

12. Income on invested funds is based on rates that range between 3.1% to 5.9% and Allowance for Funds Used During Construction is based on average rates that range between 4.1% to 5.1%.

13. Actions, if any, which may be taken by environmental agencies (other than those specifically discussed in this Report) will not have a significant adverse effect on the District.

14. As Consulting Engineer, we have made no determination as to the validity and enforceability of any contract, agreement, rule, or regulation applicable to the District and its operations. However, for purposes of this Report, we have assumed that all such contracts, agreements, rules, and regulations will be fully enforceable in accordance with their terms.

15. Following the terrorist attacks of September 11, 2001, increased emphasis has been placed on addressing security measures for the infrastructure systems and facilities throughout the United States. Terrorist activities aimed at the District could interfere with the ability of it to generate revenues. Additionally, terrorist activities have the potential to affect organizations, other than the District, that are critical to its continuing operation. We have not conducted any independent evaluations or on-site reviews to ascertain the effectiveness of the measures undertaken to address the security issues.

CONCLUSIONS

On the basis of our review and analysis of the District and the assumptions set forth herein, we are of the opinions as set forth below. For a complete understanding of the basis of our opinions, this Report should be carefully read in its entirety.

1. The District's projections of future power and energy requirements have been based on detailed analyses utilizing generally accepted methodologies. Such methodologies provide a sound basis for projecting future sales of energy to ultimate customers and the District can reasonably expect to experience the customer and load growth projected to occur by fiscal year 2008.

2. The power supply resources planned to be available to supply the District's projected requirements are adequate for fiscal years 2003 through 2008 and the District should be able to offer surplus power for sale to other utilities during most years.

3. The District's projection of revenues, based on its current price plans and expenses, is reasonable for the purposes intended.

4. The 2003-2008 Improvement Program as now planned by the District provides a sound basis for financial and corporate planning and, upon implementation, will result in substantial improvements and enhancements to the District's plant and system. In order to carry out the 2003-2008 Improvement Program, it may be necessary for the District to increase rates for electric service and to issue additional bonds or other forms of indebtedness.

5. The District provides reliable electric service, carries out a substantial ongoing maintenance program for its electrical utility properties and the District's properties are, in general, well maintained.

6. The program for fuel supply to each of the District's power supply resources, including participation units, is sound and should result in an adequate supply of fuel well into the future.

7. The requirements of clauses (b) and (c) of paragraph 1 of Section 204 of the Bond Resolution can be met and the Consulting Engineer's approval of the Certificates required to be issued by the District pursuant to paragraph 2 of Section 204 of the Bond Resolution can be furnished.

Respectfully submitted,

/s/ R. W. BECK, INC.
Consulting Engineers

APPENDIX C — Summary of the Resolution

SUMMARY OF THE RESOLUTION

The following is a summary of certain provisions of the Resolution Concerning Revenue Bonds, as amended. Such summary does not purport to be complete, and reference is made to the Resolution for full and complete statements of such provisions.

Certain Definitions

The following are definitions in summary form of certain terms contained in the Resolution and used herein and in the Official Statement:

Accounting Practice: Generally accepted accounting principles appropriate to the electric utility industry.

Accrued Aggregate Debt Service: As of any date of calculation, an amount equal to the sum of the amounts of accrued Debt Service with respect to all Series calculating the accrued Debt Service with respect to each Series at an amount equal to the sum of (i) interest on the Revenue Bonds of such Series accrued and unpaid and to accrue to the end of the then current calendar month, and (ii) Principal Installments due and unpaid and that portion of the Principal Installments for such Series next due which would have accrued (if deemed to accrue in the manner set forth in the definition of Debt Service) to the end of such calendar month.

Aggregate Debt Service: For any fiscal year, and as of any date of calculation, the sum of the amounts of Debt Service for such year with respect to all Series.

Cost of Construction: The District's cost of physical construction, costs of acquisition by or for the District of a Project for the Electric System, and costs of the District incidental to such construction or acquisition, the cost of any indemnity and surety bonds and premiums on insurance during construction, engineering expenses, legal fees and expenses, cost of financing, audits, fees and expenses of the Fiduciaries, amounts, if any, required by the Resolution or any Series Resolution to be paid into the Debt Service Fund upon the issuance of any Series of Revenue Bonds, payments when due (whether at the maturity of principal or the due date of interest or upon redemption) on any indebtedness of the District (other than the Revenue Bonds) incurred for a Project for the Electric System, costs of machinery, equipment and supplies and initial working capital and reserves required by the District for the commencement of operation of a Project for the Electric System, and any other costs properly attributable to such construction or acquisition, as determined by Accounting Practice, and shall include reimbursement to the District for any such items of Cost of Construction theretofore paid by the District. Any Series Resolution may provide for additional items to be included in the aforesaid Cost of Construction.

Debt Reserve Requirement: As of any date of calculation, an amount equal to one-half of the average annual Debt Service on all Outstanding Revenue Bonds, but not to exceed \$99,277,000.

Debt Service: For any period, as of any date of calculation and with respect to any Series, an amount equal to the sum of (i) interest accruing during such period on Revenue Bonds of such Series (except to the extent that such interest is to be paid from deposits in the Debt Service Account in the Debt Service Fund made from Revenue Bond proceeds, as described in the Resolution), and (ii) that portion of each Principal Installment for such Series which would accrue during such period if such Principal Installment were deemed to accrue daily in equal amounts from the next preceding Principal Installment due date for such Series (or, if there be no such preceding Principal Installment due date, from a date one year preceding the due date of such Principal Installment). Such interest and Principal Installments for such Series shall be calculated on the assumption that no Revenue Bonds of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment on the due date thereof.

Electric System: Properties and assets to which legal title is vested in the District and was so vested on the date of adoption of the Resolution and all properties and assets acquired by the District as renewals and replacements, additions and expansion, and improvements thereto, as recorded in the books of the District

pursuant to Accounting Practices, but shall not include properties and assets that may be hereafter purchased, constructed or otherwise acquired by the District as a separate system or facility, the revenue of which may be pledged to the payment of bonds or other forms of indebtedness issued to purchase, construct or otherwise acquire such separate system or facility and shall not include properties or assets charged to Irrigation Plant.

Fiscal Year: The period commencing May 1 and ending April 30 for each twelve-month period.

Investment Securities: Any of the following, if and to the extent the same are at the time legal for investment of District funds:

(i) Direct obligations of, or obligations guaranteed by, the United States of America or the State of Arizona;

(ii) Certificates of deposit, and bankers' acceptances whose maturity value shall not be greater than $\frac{1}{25}$ of the capital and surplus of the accepting bank;

(iii) Bonds, debentures or notes issued by any of the following Federal Agencies: Bank for Cooperatives; Federal Intermediate Credit Banks; Federal Home Loan Bank System; Export-Import Bank of Washington; Federal Land Banks; the Federal National Mortgage Association (including Participation Certificates issued by such Association); or the Government National Mortgage Association; the United States Postal Service; the Tennessee Valley Authority; or any Agency or instrumentality of the United States of America which shall be established for the purpose of acquiring the obligations of any of the foregoing or otherwise providing financing therefore;

(iv) Public Housing Bonds issued by public agencies and municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an Annual Contributions Contract or Contracts with the United States of America; or Project Notes issued by public agencies or municipalities, in each case fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America; and

(v) Direct and general obligations of any State within the territorial United States, to the payment of the principal of and interest on which the full faith and credit of such State is pledged, provided that, at the time of their purchase under the Resolution, such obligations are rated in any of the three highest rating categories by a nationally recognized bond rating agency.

Irrigation Plant: All land and land rights, structure, facilities and equipment used or usable by the District or the Salt River Valley Water Users' Association solely for the development, storage, transportation, distribution and delivery of water to the owners or occupants of the lands within the Salt River Project having rights thereto or to anyone acting on behalf thereof pursuant to contracts with the Salt River Valley Water Users' Association or the District.

Operating Expenses: The District's expenses of operating the Electric System, including all costs of purchased power, operation, maintenance, generation, production, transmission, distribution, repairs, replacements, engineering, transportation, administrative and general, audit, legal, financial, pension, retirement, health, hospitalization, insurance, taxes, and any other expenses actually paid or accrued, without limitation, expenses of the District applicable to the Electric System, as recorded on its books pursuant to Accounting Practice and any other expenses of the District applicable to the Electric System, as recorded on its books pursuant to Accounting Practice, and any other expenses incurred or payments by the District under the provisions of the Resolution or in discharge of obligations required to be paid by local, state or federal laws, all to the extent properly allocable to the Electric System under Accounting Practice. Operating Expenses shall not include any costs or expenses for new construction, falling water used in hydroelectric operations of the District, charges for depreciation, voluntary payments in lieu of taxes and operation, maintenance, repairs, replacement and construction of the Irrigation Plant.

Principal Installment: As of any date of calculation, and with respect to any Series of Revenue Bonds, (i) the principal amount of Revenue Bonds of such Series due on a certain future date for which no Sinking Fund Installments have been established, or (ii) the unsatisfied balance of any Sinking Fund Installments due on a certain future date for bonds of such Series, plus the amount of sinking fund redemption premiums, if

any, which would be applicable upon redemption of such Revenue Bonds in a principal amount equal to said unsatisfied balance of such Sinking Fund Installments or (iii) if such future dates coincide as to different Revenue Bonds of such Series, the sum of such principal amount of Revenue Bonds and of such unsatisfied balance of Sinking Fund Installments due on such future date plus such applicable redemption premiums, if any.

Prior Lien Bonds: Outstanding bonds of the District authorized and issued pursuant to the Prior Lien Bond Resolutions, and all outstanding loans with the United States of America ("U.S. Government Loans"), heretofore, or hereafter made or assumed by the District which have a prior lien on revenues of the Electric System. The bonds issued under the Prior Lien Bond Resolutions have been defeased and are no longer deemed to be outstanding under the Resolution.

Project: The purchase, replacement, construction, leasing or acquisition of any real or personal property or interest therein, works or facilities which the District is authorized by law to purchase, replace, construct, lease or otherwise acquire, or the improvement, reconstruction, extension or addition to any real or personal property, works or facilities owned or operated by the District, or any program of development involving real or personal property, works or facilities which the District is authorized by law to purchase, replace, construct, lease or otherwise acquire or the improvement, reconstruction, extension or addition to such program.

Revenues: (i) All revenues, income, rents and receipts derived by the District from the ownership and operation of the Electric System and the proceeds of any insurance covering business interruption loss relating to the Electric System and (ii) interest received on any moneys or securities (other than in the Construction Fund) held pursuant to the Resolution and paid into the Revenue Fund.

Revenues Available for Debt Service: For any fiscal year or period of 12 calendar months shall mean all revenues, income, rents and receipts derived by the District from the ownership and operation of the Electric System and the proceeds of any insurance covering business interruption loss relating to the Electric System for such year or period less the amounts of the Operating Expenses for such year or period.

Trustee: The Trustee is currently The Bank of New York.

(Resolution, Section 101).

Pledge of Revenues and Funds

The payment of the principal and redemption price of, and interest on, the Revenue Bonds is secured by (i) the proceeds of sale of the Bonds, (ii) the Revenues, and (iii) all Funds established by the Resolution, including the investments, if any, thereof. The pledge, insofar as it relates to the Revenues, is subject and subordinate in all respects to the pledges and liens created by the U.S. Government Loans and, in addition, is subject to transfer on the first day of the month of Revenues to the General Fund of the District, after all payments required by the Resolution have been made.

(Resolution, Section 501).

Additional Bonds

The District may issue additional parity Revenue Bonds in compliance with the Resolution if, among other things, (a) Revenues Available for Debt Service, adjusted as provided in the Resolution, of any 12 consecutive calendar months out of the 24 calendar months next preceding the issuance of such additional Revenue Bonds are not less than 1.20 times the maximum total of the Debt Service and the U.S. Government Loan debt service for any succeeding fiscal year on all Revenue Bonds and U.S. Government Loans which will be outstanding immediately prior to the issuance of the Additional Revenue Bonds, (b) estimated Revenues Available for Debt Service, adjusted as provided in the Resolution, for each of the five fiscal years immediately following the issuance of such proposed additional Revenue Bonds are not less than 1.35 times the total, for each such respective fiscal year, of the Debt Service and the U.S. Government Loan debt service on all Bonds and all U.S. Government Loans which will be outstanding immediately subsequent to the issuance of such proposed additional Revenue Bonds and (c) the estimated Revenues Available for Debt Service, adjusted as

provided in the Resolution, for the fifth fiscal year immediately following the issuance of such proposed additional Revenue Bonds are not less than 1.35 times the maximum total Debt Service and U.S. Government Loan debt service for any succeeding year on all Revenue Bonds and all U.S. Government Loans which will be outstanding immediately subsequent to the issuance of such proposed additional Revenue Bonds.

In determining the amount of Revenues Available for Debt Service, the Authorized Officer of the District may adjust the Revenues Available for Debt Service by adding thereto the following:

(i) in the event the District shall have acquired an operating utility or facility subsequent to the beginning of the 12-month period selected pursuant to clause (a) above, an estimate made by an Authorized Officer of the District of such additional Revenues Available for Debt Service for such 12-month period which would have resulted had such operating utility or facility been acquired at the beginning of such 12-month period; and

(ii) in the event any adjustment of rates with respect to the Electric System shall have become effective subsequent to the beginning of the 12-month period selected pursuant to clause (a) above, an estimate made by an Authorized Officer of the District of such additional Revenues Available for Debt Service for such 12-month period which would have resulted had such rate adjustment been in effect for the entire period.

In determining the amount of estimated Revenues Available for Debt Service for the purpose of clauses (b) and (c), the Authorized Officer of the District with the approval of the Consulting Engineers may adjust the estimated Revenues Available for Debt Service by adding thereto any estimated increase in revenue resulting from any increase in electric rates which, in the opinion of the Authorized Officer of the District and the Consulting Engineers, are economically feasible and reasonably considered necessary based on projected operations for such five-year period.

(Resolution, Section 204).

Refunding Bonds

One or more Series of Revenue Bonds ("Refunding Bonds") may be issued to refund all or any part of the Revenue Bonds of one or more Series then outstanding.

The issuance of Refunding Bonds to refund outstanding Revenue Bonds is subject to the condition, among others, that the District certify that the Aggregate Debt Service for the then current and each future fiscal year shall not be increased by such refunding.

(Resolution, Section 205).

Subordinated Indebtedness

The District may, at any time, or from time to time, issue evidences of indebtedness payable out of Revenues and which may be secured by a pledge of Revenues; provided, however, that such pledge shall be and shall be expressed to be, subordinate in all respects to the pledge of the Revenues, moneys, securities and funds created by the Resolution.

(Resolution, Section 509).

Allocation of Electric System Revenues

The Resolution establishes the following Funds and Accounts for the application of Revenues:

<u>Fund</u>	<u>Held By</u>
Revenue Fund	District
Debt Service	Trustee
Debt Service Account	Trustee
Debt Reserve Account	Trustee

Pursuant to the Resolution, revenues and income derived by the District from the ownership and operation of the Electric System are deposited in the Revenue Fund. The District shall (i) out of the moneys in the Revenue Fund, pay, free and clear of any lien or pledge created by the Resolution, all amounts required for reasonable and necessary Operating Expenses, and (ii) at all times retain in the Revenue Fund amounts deemed by the District to be reasonable and necessary for working capital and reserves for Operating Expenses including expenses which do not recur annually; provided that the total amount of such reserves set aside during any year shall not exceed 20% of the amount of Operating Expenses for such year.

Amounts in the Revenue Fund not retained for Operating Expenses, working capital, and reserves for Operating Expenses are to be paid monthly to the following Funds and Accounts in the order of priority as follows:

(1) To the Debt Service Fund: (i) for credit to the Debt Service Account, to the extent required so that the balance in said Account shall equal the Accrued Aggregate Debt Service; provided that, for the purposes of computing the amount to be allocated to said Account, there shall be excluded the amount, if any, set aside in said Account which was deposited therein from the proceeds of Revenue Bonds less an amount equal to the interest accrued and unpaid and to accrue on Revenue Bonds (or any Refunding Bonds issued to refund Bonds) to the last day of the then current calendar month; and (ii) for credit to the Debt Reserve Account, an amount equal to one-twelfth of twenty percent ($\frac{1}{12}$ of 20%) of the amount necessary to make the total moneys on deposit in the Debt Reserve Account equal to the Debt Reserve Requirement; provided, however, that no deposits need be made into the Debt Reserve Account when the amount on deposit therein shall equal or exceed \$99,277,000.

(2) The District shall out of the moneys in the Revenue Fund not retained therein for Operating Expenses and not applied for credit of the Debt Service Account or the Debt Reserve Account, on or before the first working day of each month, transfer such remaining balance in the Revenue Fund to the General Fund of the District. Any amount so transferred to the General Fund of the District may be used by the District for any lawful purpose.

So long as there shall be held in the Debt Service Fund an amount sufficient to fully pay all outstanding Bonds in accordance with their terms (including principal or applicable sinking fund Redemption Price and interest thereon), no deposits shall be required to be made into the Debt Service Fund.

The Trustee shall pay from the Debt Service Account the amounts required (i) for the payment of interest and Principal Installments on the Revenue Bonds when due, (ii) on or before the day preceding any redemption date of the Revenue Bonds, for payment of the redemption price and accrued interest on the redemption of Revenue Bonds, and the purchase price on the purchase of Revenue Bonds, through application of moneys accumulated in the Debt Service Account with respect to any sinking fund installment, and through application of any moneys in the Debt Service Account when applied from 40 to 60 days prior to the due date of a sinking fund installment to the retirement of the balance of such installment, and (iii) accrued interest included in the purchase price of Revenue Bonds purchased for retirement.

If on the first working day of any month the amount in the Debt Service Account shall be less than the amount required to be in such Account, the Trustee shall apply amounts from the Debt Reserve Account to the extent necessary to make good the deficiency.

Whenever moneys on deposit in the Debt Reserve Account shall exceed the Debt Reserve Requirement, the excess shall be applied by the Trustee in the same manner as Revenues.

Whenever the amount in the Debt Reserve Account, together with the amount in the Debt Service Account, is sufficient to pay in full all outstanding Revenue Bonds in accordance with their terms, including principal or applicable sinking fund Redemption Price and interest thereon, the funds on deposit in the Debt Reserve Account shall be transferred to the Debt Service Account.

(Resolution, Sections 501-508).

Transfer from General Fund

In the event there is a deficiency in the Debt Service Account and if such a deficiency is not paid from other sources, the District shall transfer money in the General Fund to the Debt Service Account in amounts sufficient to make up such deficiency or deficiencies.

(Resolution, Section 717).

Construction Fund

The Resolution establishes a Construction Fund, to be held by the District, and provides that there shall be paid into the Construction Fund: (i) the balance of Revenue Bond proceeds, remaining after the deposit of an amount equal to the accrued interest on such bonds to the date of delivery of the Revenue Bonds of each Series in the Debt Service Account, and any other deposits required by the Series Resolution to be made in the Debt Service Account and Debt Reserve Account; (ii) insurance proceeds, if any, from physical loss of or damage to a Project, or of contractors' performance bond proceeds, unless otherwise permitted to be applied by the provisions of the Resolution.

In addition, there may be paid into the Construction Fund, at the option of the District, any moneys received for or in connection with the Electric System by the District from any other source, unless required to be otherwise applied as provided by the Resolution.

Amounts in the Construction Fund shall be applied to the purpose or purposes specified in the Series Resolution authorizing the Revenue Bonds, unless otherwise provided for in the Resolution.

To the extent that other moneys are not available therefore, amounts in the Construction Fund shall be applied to the payment of principal of and interest on Revenue Bonds when due.

Amounts in the Construction Fund shall be invested by the District to the fullest extent practicable in Investment Securities maturing in such amounts and at such times as may be necessary to provide funds when needed to pay the Cost of Construction or such other purpose to which such moneys are applicable. The District may, and to the extent required for payments from the Construction Fund shall, sell any such Investment Securities at any time, and the proceeds of such sale, and of all payments at maturity and upon redemption of such investments, shall be held in the Construction Fund. Interest received on moneys or securities in the Construction Fund shall be deposited in the Construction Fund.

(Resolution, Section 503).

Redemption Fund

The Resolution establishes a Redemption Fund and requires that proceeds from the sale or exchange by the District of any property constituting part of the Electric System and not necessary, in the opinion of the District, in the operation thereof, shall be deposited in either the Construction Fund or the Redemption Fund, at the discretion of the District. In addition, the proceeds of any insurance against damage or destruction, other than against business interruption loss, not applied by the District to constructing or replacing damaged or destroyed property or in acquiring property or assets of the Electric System shall be paid to the Trustee for deposit in the Redemption Fund. Amounts in the Redemption Fund shall be used by the District for the purchase or redemption of any Revenue Bonds and expenses in connection with the purchase or redemption of any Revenue Bonds.

(Resolution, Sections 510, 707 and 713).

Electric System Rate Covenant

The District covenants that it shall charge and collect fees and other charges for the sale of electric power and energy and other services, facilities and commodities of the Electric System as shall be required to provide revenues and income (including investment income) at least sufficient in each fiscal year for the payment of the sum of:

(a) Operating Expenses during such fiscal year, including reserves, if any, therefore provided for in the Annual Budget for such year;

(b) An amount equal to the Aggregate Debt Service for such fiscal year;

(c) The amount, if any, to be paid during such fiscal year into the Debt Reserve Account in the Debt Service Fund;

(d) An amount equal to the U.S. Government Loan debt service for such fiscal year; and

(e) All other charges or liens whatsoever payable out of revenues and income during such fiscal year and, to the extent not otherwise provided for, all amounts payable on Subordinated Indebtedness.

The collection of revenues and income (including investment income) in any fiscal year in an amount in excess of the aggregate payments specified for such fiscal year shall not be taken into account as a credit against such aggregate payments for any subsequent fiscal year or years.

On or before April 1 in each year, the District shall complete a review of its financial condition for the purpose of estimating whether the revenues and income from the operation of the Electric System, including investment income treated as revenues for such year, will be sufficient to provide all of the payments and meet all other requirements as specified and shall by resolution make a determination with respect thereto. If the District determines that such revenues and income may not be sufficient to provide such payments and meet such other requirements, it shall forthwith make a study for the purpose of making a schedule of rates, fees and charges for the Electric System which will cause sufficient revenues and income to be collected in the following fiscal year to provide funds for all the payments and other requirements as specified above for such following year and will cause additional revenues and income to be collected in such following and later fiscal years sufficient to restore the amount of such deficiency at the earliest practicable time. If, in any fiscal year, the revenues and income collected shall not have been sufficient to provide all of the payments and meet all other requirements as specified above, the District shall as promptly as permitted by law establish and place in effect a schedule of rates, fees and charges which will cause sufficient revenues and income to be collected.

The failure in any fiscal year to comply with the Electric System Rate Covenant shall not constitute an Event of Default under the Resolution, if the District shall comply with the requirements of the immediately preceding paragraph.

(Resolution, Section 711).

Certain Other Covenants

No Free Service: The District will not furnish or supply power or energy free of charge to any person, firm or corporation, public or private, and will promptly enforce payment of any and all accounts owing to the District by reason of the ownership and operation of the Electric System, to the extent dictated by sound business practice.

(Resolution, Section 711-3).

Power to Operate Electric System and Collect Rates and Fees: The District has, and will have so long as any Revenue Bonds are outstanding, good right and lawful power to construct, reconstruct, improve, maintain, operate and repair the Electric System, and to fix and collect rates, fees, rents and other charges in connection therewith.

(Resolution, Section 706).

Creation of Liens: Disposition of Properties: The District will not issue bonds or other evidences of indebtedness other than the Revenue Bonds payable out of or secured by a pledge of any Revenues or income of the Electric System or of the moneys, securities or funds held or set aside under the Resolution, nor will it create or cause to be created, any lien or charge thereon except with respect to (i) Subordinated Indebtedness; (ii) loans made or assumed with the United States of America, which loans may be secured by a lien on Revenues and income of the Electric System prior to the lien of Revenue Bonds issued pursuant to the Resolution.

No part of the Electric System shall be sold, mortgaged, leased or otherwise disposed of or encumbered, except: (i) for sales and exchanges of any property constituting part of the Electric System which, in the opinion of the District is not necessary in the operation of the Electric System; (ii) the District may lease or make contracts or grant licenses for the operation of, or grant easements or other rights with respect to, any part of the Electric System if such lease, contract, license, easement or right does not materially impede or unduly restrict the operation by the District of the Electric System. Any proceeds received by the District for sale or exchange of unnecessary property shall be deposited in either the Construction Fund or the Redemption Fund at the discretion of the District. Any payment received by the District under or in connection with any such lease, contract, license, easement or right of way in respect of the Electric System or any part thereof shall constitute Revenues.

(Resolution, Section 707).

Consulting Engineers: The District shall, until the Revenue Bonds and the interest thereon shall have been paid or provision for such payment shall have been made, for the purpose of performing and carrying out the duties imposed on the Consulting Engineers by the Resolution, employ an independent engineer or engineering firm or corporation having a favorable reputation for skill and experience in such work.

(Resolution, Section 708).

Annual Budget: Not less than 30 days prior to the beginning of each fiscal year, the District shall prepare an Annual Budget for the ensuing fiscal year. Each such Annual Budget shall include estimates for Operating Expenses for such year. Such Annual Budget may set forth such additional material as the District may determine. The District may at any time adopt an amended Annual Budget for the remainder of the then current fiscal year.

(Resolution, Section 709).

Insurance: The District shall provide protection for the Electric System in accordance with sound electric utility practice which may consist of insurance, self-insurance and indemnities. Any insurance shall be in the form of policies or contracts for insurance with insurers of good standing, shall be payable to the District as its interests may appear, and may provide for such deductibles, exclusions, limitations, restrictions and restrictive endorsements customary in policies for similar coverage issued to entities operating properties similar to the properties of the Electric System. Any self-insurance shall be in the amounts, manner and of the types provided by entities operating properties similar to the properties of the Electric System.

(Resolution, Section 712).

Accounts and Reports: The District shall keep, in accordance with Accounting Practice, proper books of record and account of its transactions relating to the Electric Systems, together with all contracts for the sale of power and energy and all other books and papers of the District, including insurance policies, relating to the Electric System and such funds and accounts.

The Trustee shall advise the District promptly after the end of each month of its transactions during such month relating to the funds and accounts held by it under the Resolution.

The District shall annually, within 180 days after the close of each fiscal year, file with the Trustee, and otherwise as provided by law, a copy of the annual report of the District for such year, accompanied by an Accountant's Report. In addition, the District will file with the Trustee a statement, or statements, accompanied by an Accountant's Report of each fund and account established under the Resolution,

summarizing the receipts therein and disbursements therefrom during such year and the amounts held therein at the end of each year. Such Accountant's Report on the statement summarizing the transactions in the funds established under the Resolution shall state whether or not, to the knowledge of the signer, the District is in default with respect to any of the covenants, agreements or conditions as set forth in Section 801 of the Resolution, insofar as they pertain to accounting matters and, if so, the nature of such default.

The reports, statements and other documents required to be furnished to the Trustee pursuant to Section 714 of the Resolution shall be available for the inspection of the Revenue Bondholders at the office of the Trustee and shall be mailed to each Revenue Bondholder who shall file a written request therefore with the District.

(Resolution, Section 714).

Defeasance

Outstanding Revenue Bonds shall prior to the maturity or redemption date thereof be deemed to have been paid and shall cease to be entitled to any lien, benefit or security under the Resolution if the following conditions are met: (i) in case of Revenue Bonds to be redeemed, the District shall have given to the Trustee irrevocable instructions to publish the notice of redemption therefore, (ii) there shall have been deposited with the Trustee in trust either moneys in an amount which shall be sufficient, or investment securities (which shall consist of non-callable securities which are direct obligations of, or obligations guaranteed by, the United States of America) the principal of and interest on which, when due, will provide moneys which, together with any moneys also deposited, shall be sufficient to pay when due the principal or redemption price, if applicable, and interest due or to become due on such Revenue Bonds, and (iii) in the event such Revenue Bonds are not subject to redemption within the next succeeding 60 days, the District shall have given the Trustee irrevocable instructions to publish, as soon as practicable, a notice to the holders of such Revenue Bonds that the above deposit has been made with the Trustee and that such Revenue Bonds are deemed to be paid and stating the maturity or redemption date upon which moneys are to be available to pay the principal or redemption price, if applicable, of such Revenue Bonds.

(Resolution, Section 1201).

Events of Default and Remedies

Events of Default specified in the Resolution include failure to pay principal or redemption price of any Revenue Bond when due; failure for 30 days to pay any interest installment or the unsatisfied balance of any Sinking Fund Installment thereon when due; failure to comply with the rate and fee covenants with respect to the Electric System, if such failure is not remedied by compliance with subsection 2 of Section 711 of the Resolution; failure for 60 days after written notice thereof to the District by the Trustee or the District and the Trustee by the holders of not less than 10% of the principal amount of the Revenue Bonds outstanding in the observance or performance of any other covenants, agreements or conditions; and the filing of a petition seeking a composition of indebtedness under the Federal Bankruptcy Laws, or a Federal or Arizona statute. Upon the happening of any such Event of Default, the Trustee or the holders of not less than 25% in principal amount of the Revenue Bonds then outstanding may declare the principal and accrued interest on all Revenue Bonds then outstanding due and payable. Such declaration may be rescinded by written notice to the District and to the Trustee of the holders of a majority of the principal amount of the Revenue Bonds outstanding at any time after such declaration but prior to the maturity of the Revenue Bonds by their terms, if: (i) all overdue installments of interest upon the Revenue Bonds, interest upon such overdue installments permitted by law, the reasonable and proper charges, expenses and liabilities of the Trustee and all other sums then due under the Resolution (except the principal of and interest accrued upon the Revenue Bonds due solely by virtue of such declaration) shall either be paid by or for the account of the District or provision for such payment satisfactory to the Trustee shall be made; (ii) all defaults under the Revenue Bonds or Resolution shall be cured, made good or secured (or provision for such cure, making good or securing be made) to the satisfaction of the Trustee.

If the Trustee shall have acted itself, and if there shall not have been theretofore delivered to the Trustee written direction to the contrary by the holders of a majority in principal amount of the Revenue Bonds then outstanding, then any such declaration shall ipso facto be deemed to be rescinded and any such default and its consequences shall ipso facto be deemed to be annulled, but no such rescission and annulment shall extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

Upon occurrence of an Event of Default, the District shall subject the books of record and account of the District, and all other records relating to the Electric System, to the use of the Trustee and its agents and attorneys.

Upon occurrence of an Event of Default, which shall not have been remedied, the District shall, if demanded by the Trustee, account as a trustee of an express trust, for all Revenues, moneys, securities and funds pledged under the Resolution, and pay over to the Trustee all assets held in any fund or account under the Resolution and, as received, all Revenues. The Trustee shall apply such moneys, securities, funds and Revenue and income therefrom in the following order: (i) to the payment of the amounts required for reasonable and necessary Operating Expenses, and for reasonable renewals, repairs and replacements of the Electric System to prevent loss of Revenues, (ii) to the payment of reasonable and proper charges, expenses and liabilities of the Trustee and its engineers; (iii) to the payment of interest and principal or Redemption Price then due on the Revenue Bonds, subject to the provisions of subsection 2 of Section 803 of the Resolution.

If all defaults under the Revenue Bonds or the Resolution shall be cured, made good or secured to the satisfaction of the Trustee, the District and the Trustee shall be restored to their former position and rights, and all revenues shall be applied as if there had been no Event of Default.

If an Event of Default shall have occurred and not be remedied, the Trustee may, on request of the holders of not less than 25% in principal amount of Revenue Bonds outstanding shall, take such steps by a suit or suits in equity or at law, whether for the specific performance of any covenants of the Resolution or in aid of the execution of any power granted in the Resolution, or for an accounting against the District, or in the enforcement of any other legal or equitable right as the Trustee shall deem most effectual to enforce any of its rights or to perform any of its duties under the Resolution.

The holders of not less than a majority in principal amount of Revenue Bonds then outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee (subject to the Trustee's right to decline to follow such direction upon advice of counsel as to the unlawfulness thereof or upon its good faith determination that such action would involve the Trustee in personal liability or would be unjustly prejudicial to bondholders not parties to such direction).

The Trustee may, upon the request of the holders of a majority in principal amount of the Revenue Bonds then outstanding, and upon being furnished with reasonable security and indemnity, but shall be under no obligation to institute and prosecute a proper action to prevent any impairment of the security under the Resolution or to preserve or protect the interests of the Trustee and of the bondholders.

In case an Event of Default shall occur (which shall not have been cured), the Trustee shall be required to exercise and use the same degree of care and skill as a prudent man would exercise and use under the circumstances in the conduct of his own affairs.

No holder of any Revenue Bond or coupon shall have any right to institute any suit, action or proceeding for the enforcement of any provision of the Resolution or the execution of any trust under the Resolution or for any remedy under the Resolution, unless such holder shall have previously given the Trustee written notice of the Event of Default, and the holders of at least 25% in principal amount of the Revenue Bonds then outstanding shall have filed a written request with the Trustee and shall have afforded the Trustee a reasonable opportunity to exercise its powers or institute such action, suit or proceeding, and unless there shall have been offered to the Trustee adequate security and indemnity against its costs, expenses and liability to be incurred and the Trustee shall have refused to comply with such request within 60 days. Nothing in the Resolution or

the Revenue Bonds affects or impairs the District's obligation to pay the Revenue Bonds and interest thereon when due or the right of any bondholder to enforce such payment.

(Resolution, Sections 801-808, 903).

Amended and Restated Resolutions

For any of the following purposes, a Amended and Restated Resolution of the District may be adopted, which, upon the filing with the Trustee, shall be fully effective: (1) To provide additional limitations and restrictions on the delivery of Revenue Bonds or the issuance of other evidences of indebtedness; (2) To add other covenants and agreements to be observed by the District which are not contrary to or inconsistent with the Resolution as theretofore in effect; (3) To add other limitations and restrictions to be observed by the District which are not contrary to or inconsistent with the Resolution as heretofore in effect; (4) To authorize Revenue Bonds of a Series and any other matters and things relative to such Revenue Bonds which are not contrary to or inconsistent with the Resolution or to amend, modify or rescind any such authorization, prior to the first delivery of such Revenue Bonds; (5) To confirm, as further assurance, any pledge under, and the subjection to any lien or pledge of the Revenues or of any other moneys, securities or funds; (6) To modify any of the provisions of the Resolution in any respect whatever, provided that (i) such modification shall be, and be expressed to be, effective only after all Revenue Bonds of any Series outstanding at the date of the adoption of such Amended and Restated Resolution shall cease to be outstanding, and (ii) such Amended and Restated Resolution shall be specifically referred to in the text of all Revenue Bonds of any Series delivered after the date of the adoption of such Amended and Restated Resolution and of Revenue Bonds issued in exchange therefore or in place thereof; (7) To cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Resolution; or (8) To insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable and are not contrary to or inconsistent with the Resolution as theretofore in effect.

(Resolution, Section 1001).

Amendment with Consent of Bondholders

Any modification or amendment of the Resolution may be made in any particular by a Amended and Restated Resolution, with the written consent (i) of the holders of at least two-thirds in principal amount of the Revenue Bonds outstanding at the time such consent is given and (ii) in case less than all of the several Series of Revenue Bonds then outstanding or less than all the Revenue Bonds of a Series then outstanding are affected by the modification or amendment of the holders of at least two-thirds in principal amount of the Revenue Bonds so affected and outstanding at the time such consent is given, and (iii) in case the modification or amendment changes the terms of any Sinking Fund Installment, of the holders of at least two-thirds in principal amount of the Revenue Bonds entitled to such Sinking Fund Installment and outstanding at the time such consent is given. If such modification or amendment will, by its terms, not take effect so long as any Revenue Bonds of any specified like Series and maturity remain outstanding, the consent of the holders of such Revenue Bonds shall not be required.

No such modification or amendment shall (i) permit a change in the terms of redemption or maturity of the principal of any outstanding Revenue Bond or of any installment of interest thereon, or permit a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon, without, in each case, the consent of the holder of such Revenue Bond; or (ii) reduce the percentages or otherwise affect the classes of Revenue Bonds the consent of the Holders of which is required to effect any such modification or amendment; or (iii) change or modify any of the rights or obligations of the Trustee or any Paying Agent without its written assent thereto.

(Resolution, Sections 1102 and 1103).

Special Provisions Relating to Capital Appreciation Bonds

For the purposes of (i) receiving payment of the Redemption Price if a Capital Appreciation Bond is redeemed prior to maturity, or (ii) receiving payment of a Capital Appreciation Bond if the principal of all Bonds is declared immediately due and payable following an Event of Default or (iii) computing the principal amount of Bonds held by the registered owner of a Capital Appreciation Bond in giving to the District or the Trustee any notice, consent, request, or demand pursuant to the Resolution for any purpose whatsoever, the principal amount of a Capital Appreciation Bond shall be deemed to be its Accreted Value.

The principal and interest portions of the Accreted Value (as defined in an applicable Series Resolution) of Capital Appreciation Bonds (as defined in an applicable Series Resolution) becoming due at maturity or by virtue of a Sinking Fund Installment shall be included in the calculations of accrued and unpaid and accruing interest of Principal Installments made under the definitions of Debt Service, Aggregate Debt Service and Accrued Aggregate Debt Service only from and after the date (the "Calculation Date") which is one year prior to the date on which Accreted Value becomes so due, and the principal and interest portions of such Accreted Value shall be deemed to accrue in equal daily installments from the Calculation Date to such due date.

(Resolution, Section 101).

APPENDIX D — Form of Amended and Restated Bond Resolution

Deletions appear as Overstrike text surrounded by { }

Additions appear as Bold text surrounded by []

**SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT
AND POWER DISTRICT, ARIZONA**

**[Supplemental Resolution Dated September 10, 2001
Authorizing an Amended and Restated] Resolution Concerning Revenue Bonds**
~~{Dated as of November 1, 1972~~
~~**(AS AMENDED THROUGH OCTOBER 14, 1993)**~~

~~{A}~~

**[SUPPLEMENTAL RESOLUTION DATED SEPTEMBER 10, 2001
AUTHORIZING AN AMENDED AND RESTATED] RESOLUTION
RELATING TO THE EXERCISE OF POWERS GRANTED BY
ARIZONA REVISED STATUTES, ARTICLE 7, CHAPTER 17,
TITLE 48; CREATING AND ESTABLISHING AN ISSUE OF SALT
RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS OF
SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND
POWER DISTRICT; PROVIDING FOR THE ISSUANCE FROM
TIME TO TIME OF SAID BONDS; PROVIDING FOR THE
PAYMENT OF PRINCIPAL AND INTEREST ON SAID BONDS
AND PROVIDING FOR THE RIGHTS OF THE HOLDERS
THEREOF.**

WHEREAS, Salt River Valley Water Users' Association (hereinafter called the "Association") was duly incorporated February 9, 1903, under the General Corporation Laws of the Territory of Arizona to furnish water for irrigation, power for domestic and ordinary purposes, and to provide drainage to and for the lands appurtenant to the shares held by the members of said Association, and was authorized to construct and operate, or to contract with the United States of America for the construction and operation of dams, power plants, transmission lines, roads, canals, and other facilities incident to the storage, production, distribution and operation of irrigation, water, power and drainage works for the benefit of said lands, the area including all said lands served and benefited by such works and improvements being known as the Salt River Project; and

WHEREAS, said Association by contract entered into with the United States of America agreed to act as Agent for the United States of America to collect from the owners of said lands in the Salt River Project moneys due the United States of America for the construction and operation of the works constructed and operated in connection with said Salt River Project and further agreed as Agent for the United States of America to maintain, operate, complete, improve and extend such works, and said Association, in furtherance of the objects for which it was incorporated, expended and undertook the payment of certain amounts of money for the construction, by it and by the United States of America, of dams, power plants, canals, ditches, pumping plants, pipe lines and other properties and improvements, and for said purposes issued its bonds and assumed the payment of bonds issued by certain underlying agricultural improvement districts therefor and thereafter incurred further indebtedness for the improvements and replacements of the structures and equipment necessary and useful for providing power for the use of the owners and occupants of said lands within the exclusion lines of the Salt River Project; and

WHEREAS, all of the lands subscribed to the Articles of Incorporation of said Salt River Valley Water Users' Association and within the exclusion lines of the Salt River Project were organized on January 25, 1937 under the laws of the State of Arizona as an agricultural improvement district and as a political subdivision and body politic and corporate known and designated as Salt River Project Agricultural Improvement and Power District (hereinafter called the "District"); and

WHEREAS, said District, pursuant to authority of law, entered into that certain Agreement with said Association dated March 22, 1937, whereby said Association agreed to perform and comply with all of its contracts with the United States of America and to act as Agent of the United States of America in operating the Salt River Project for the benefit of this District; and

WHEREAS, by virtue of an amendment dated September 12, 1949, to that certain Agreement with said Association dated March 22, 1937, said District assumed the direct operation of the electric system of the Salt River Project, including all works on Salt River and its tributaries above Granite Reef Dam, and all property used or useful in the generation, transmission, and distribution of electrical power and energy, and all facilities used or useful solely in the operation and maintenance of said works and property, and the Association under said amendment assumed as Agent of said District the direct operation and maintenance of the irrigation and drainage system of the Salt River Project, including all canals and laterals used in delivery of water, all works for the diversion of water into said canals and laterals, all irrigation and drainage wells and pumping plants, and all other facilities used or useful exclusively in the operation and maintenance of said works and property,

all to promote and assure further economy and efficiency in the operation and maintenance of said electric system of the Salt River Project, and to insure adequate and proper service of water to the users thereof within Salt River Project; and

WHEREAS, under Chapter 17, Title 48, Arizona Revised Statutes said District has the general power and authority to finance improvements and replacements of structures and equipment necessary and useful for providing power for the use of owners and occupants of the lands within the Salt River Project and to reduce the cost of irrigation, drainage and power to the owners of lands within the Salt River Project by the sale of surplus water or power, and to issue its bonds to accomplish such financing when deemed proper for the interest of said District and to pledge its revenues as security for the payment of said bonds; and

WHEREAS, it is determined necessary and in the best interests of the District to adopt a resolution relating to the exercise of powers granted by Article 7, Chapter 17, Title 48 of Arizona Revised Statutes, and to issue bonds at such times and in such amounts as the Board of Directors shall determine; and

[WHEREAS, the District adopted its resolution entitled "RESOLUTION RELATING TO THE EXERCISE OF POWERS GRANTED BY ARIZONA REVISED STATUTES, ARTICLE 7, CHAPTER 17, TITLE 48; CREATING AND ESTABLISHING AN ISSUE OF SALT RIVER PROJECT ELECTRIC SYSTEM REVENUE BONDS OF SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT; PROVIDING FOR THE ISSUANCE FROM TIME TO TIME OF SAID BONDS; PROVIDING FOR THE PAYMENT OF PRINCIPAL AND INTEREST ON SAID BONDS AND PROVIDING FOR THE RIGHTS OF THE HOLDERS THEREOF" dated as of November 1, 1972, as amended through October 14, 1993 (the "Bond Resolution"); and

WHEREAS, the District desires to amend and restate the Bond Resolution in order to modernize the Bond Resolution so that it can efficiently operate in a changing electric utility industry and to provide the District with greater flexibility in the exercise of its powers thereunder; and

WHEREAS, pursuant to Section 11.02 of the Bond Resolution the District has the power and authority to amend the Bond Resolution by adoption of a supplemental resolution in accordance with the provisions of Section 11.03 of the Bond Resolution; and

WHEREAS, it is determined necessary and in the best interests of the District to adopt a supplemental resolution amending and restating the Bond Resolution in accordance with the provisions hereof; and

WHEREAS, this supplemental resolution shall become effective only upon satisfaction of the provisions for adoption of a supplemental resolution as set forth in Section 11.03 hereof;]

NOW, THEREFORE, BE IT AND IT IS HEREBY RESOLVED by the Board of Directors of Salt River Project Agricultural Improvement and Power District [that the Bond Resolution is hereby amended and restated] as follows:

ARTICLE I

DEFINITIONS AND STATUTORY AUTHORITY

1.01 Definitions. The following terms shall, for all purposes of the Resolution, have the following meanings:

Accountant's Report shall mean an opinion signed by an independent public accountant of recognized national standing or a firm of public accountants of recognized national standing, selected by the District, who may be the accountant or firm of accountants who regularly examine the financial statements of the District and the Association.

Accounting Practice shall mean generally accepted accounting principles appropriate to the electric utility industry.

~~{Accrued Aggregate Debt Service shall mean, as of any date of calculation, an amount equal to the sum of the amounts of accrued Debt Service with respect to all Series, calculating the accrued Debt Service with~~

respect to each Series at an amount equal to the sum of (i) interest on the Bonds of such Series accrued and unpaid and to accrue to the end of the then current calendar month, and (ii) Principal Installments due and unpaid and that portion of the Principal Installments for such Series next due which would have accrued (if deemed to accrue in the manner set forth in the definition of Debt Service) to the end of such calendar month.

Act shall mean Chapter 17, Title 48, Arizona Revised Statutes, as amended and supplemented from time to time.

Aggregate Debt Service for any Fiscal Year shall mean, as of any date of calculation, the sum of the amounts of Debt Service for such year with respect to all Series.

Annual Budget shall mean the annual budget [of the District], as amended or supplemented, adopted or in effect for a particular Fiscal Year {as provided in Section 7.09}.

Authorized Newspapers shall mean two newspapers printed in the English language, one of which is customarily published at least once a day for at least five days (other than legal holidays) in each calendar week and of general circulation in the City of Phoenix, Arizona, and the other of which is The Daily Bond Buyer, a newspaper specializing in financial matters published in the Borough of Manhattan, City and State of New York or in lieu of such publication in The Daily Bond Buyer, in some other newspaper of general circulation specializing in financial matters published in the Borough of Manhattan, City and State of New York.

Authorized Officer of the District shall mean the President, Vice President, Treasurer, Secretary or General Manager of the District or any officer or employee of the District authorized to perform specific acts or duties by resolution duly adopted by the District.

Bond or Bonds shall mean any bond or bonds delivered under and pursuant to the Resolution.

Bondholder or Holder of Bonds shall mean any person who shall be {the bearer of any coupon Bond or Bonds or} the registered owner of any Bond {or Bonds without coupons or the registered owner of any coupon Bond or Bonds registered as to principal only}.

Construction Fund shall mean the Salt River Project Electric System Construction Fund established in Section 5.02.

{Consulting Engineers shall mean the engineer or engineering firm or corporation at the time retained by the District pursuant to Section 7.08 to perform the acts and carry out the duties provided for such Consulting Engineers in the Resolution.}

Cost of Construction shall mean the District's cost of physical construction, costs of acquisition by or for the District of a Project for the Electric System, and costs of the District incidental to such construction or acquisition, the cost of any indemnity and surety bonds and premiums on insurance during construction, engineering expenses, legal fees and expenses, costs of financing, audits, fees and expenses of the Fiduciaries, amounts, if any, required by the Resolution or any Series Resolution to be paid into the Debt Service Fund upon the issuance of any Series of Bonds, payments when due (whether at the maturity of principal or the due date of interest or upon redemption) on any indebtedness of the District (other than the Bonds) incurred for a Project for the Electric System, costs of machinery, equipment and supplies and initial working capital and reserves required by the District for the commencement of operation of a Project for the Electric System, and any other costs properly attributable to such construction or acquisition, as determined by Accounting Practice, and shall include reimbursement to the District for any such items of Cost of Construction theretofore paid by the District. Any Series Resolution may provide for additional items to be included in the aforesaid Cost of Construction.

Counsel's Opinion shall mean an opinion signed by an attorney or firm of attorneys (who may be counsel to the District) selected by the District.

[Debt Reserve Account Credit Facility shall mean a letter of credit, revolving credit agreement, surety bond, insurance policy or similar obligation, arrangement or instrument issued by a bank, insurance

company or other financial institution, having a rating in the highest rating category from a nationally recognized rating agency, which shall be deposited in the Debt Reserve Account and which provides for the payment of all or a portion of the Debt Reserve Requirement.]

Debt Reserve Requirement shall mean, as of any date of calculation, an amount equal to one-half of the average annual ~~{Debt Service on}~~ [interest cost for] all Outstanding Bonds, ~~{but not to exceed \$99,277,000,}~~ [which may be satisfied by the deposit of cash or securities in the Debt Reserve Account or by the deposit of a Debt Reserve Account Credit Facility in the Debt Reserve Account in lieu of or in partial substitution for cash or securities on deposit therein. For purposes of determining the average annual interest cost for any Outstanding Bonds which bear interest at a variable rate, the District shall assume the same average interest cost applicable to such Outstanding Bonds for the previous Fiscal Year.]

Debt Service for any period shall mean, as of any date of calculation and with respect to any Series an amount equal to the sum of (i) interest accruing during such period on Bonds of such Series, except to the extent that such interest is to be paid from deposits in the Debt Service Account in the Debt Service Fund made from Bond proceeds, and (ii) that portion of each Principal Installment for such Series which would accrue during such period if such Principal Installment were deemed to accrue daily in equal amounts from the next preceding Principal Installment due date for such Series (or, if there shall be no such preceding Principal Installment due date, from a date one year preceding the due date of such Principal Installment). Such interest and Principal Installments for such Series shall be calculated on the assumption that no Bonds of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment on the due date thereof.

Debt Service Fund shall mean the Salt River Project Electric System Debt Service Fund established in Section 5.02[, including the Debt Service Account and Debt Reserve Account created therein.

Defeasance Securities shall mean and include any of the following securities, if and to the extent the same are at the time legal for investment of District funds:

(i) Any security which is (a) a direct obligation of or unconditionally guaranteed by, the United States of America or the State of Arizona or (b) an obligation of an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which is not callable or redeemable at the option of the issuer thereof;

(ii) Any depositary receipt issued by a bank as custodian with respect to any Defeasance Securities which are specified in clause (i) above and held by such bank for the account of the holder of such depositary receipt, or with respect to any specific payment of principal or interest on any such Defeasance Securities which are so specified and held, by such bank for the account of the holder of such depositary receipt, or with respect to any specific payment of principal of or interest on any such Defeasance Securities which are so specified and held, provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depositary receipt from any amount received by the custodian in respect of the Defeasance Securities or the specific payment of principal or interest evidenced by such depositary receipt;

(iii) Certificates of deposit, whether negotiable or non-negotiable, and banker's acceptances whose maturity value shall not be greater than $\frac{1}{25}$ of the capital and surplus of the accepting bank or commercial paper issued by the parent holding company of any such bank which at the time of investment has an outstanding unsecured, uninsured and unguaranteed debt issue rated in the highest short term rating category by a nationally recognized rating agency;

(iv) Any obligation of any state or political subdivision of a state or of any agency or instrumentality of any state or political subdivision ("Municipal Bond") which Municipal Bond is fully secured as to principal and interest by an irrevocable pledge of moneys or direct and general obligations of, or obligations guaranteed by, the United States of America, which moneys or obligations are segregated in trust and pledged for the benefit of the holder of the Municipal Bond, and which Municipal Bond is rated in the highest rating category by at least two nationally recognized rating agencies, and provided,

however, that such Municipal Bond is accompanied by (1) a Counsel's Opinion to the effect that such Municipal Bond will be required for the purposes of the investment being made therein and (2) a report of a nationally recognized independent certified account verifying that the moneys and obligations so segregated are sufficient to pay the principal of, premium, if any, and interest on the Municipal Bond; and

(v) Any other security designated in a Series Resolution as Defeasance Securities for purposes of defeasing the Bonds authorized by such Series Resolution].

Depository shall mean any bank or trust company selected by the District as a depository of moneys and securities held under the provisions of the Resolution, and may include the Trustee.

District shall mean the Salt River Project Agricultural Improvement and Power District, a body politic and corporate organized and existing under the laws of the State of Arizona, including the Act.

Electric System shall mean properties and assets to which legal title is vested in the District and was so vested on the date of adoption of this Resolution and all properties and assets acquired by the District as renewals and replacements, additions and expansion, and improvements thereto, as recorded in the books of the District pursuant to Accounting Practices, but shall not include properties and assets that may be hereafter purchased, constructed or otherwise acquired by the District as a separate system or facility, the revenue of which may be pledged to the payment of bonds or other forms of indebtedness issued to purchase, construct or otherwise acquire such separate system or facility and shall not include properties or assets charged to Irrigation Plant [or any Separately Financed Project].

Event of Default shall have the meaning given to such term in Section 8.01.

Fiduciary or Fiduciaries shall mean the Trustee, the Paying Agents, or any or all of them, as may be appropriate.

Fiscal Year shall mean the period commencing ~~{January 1 and ending December 31 of each calendar year, for calendar years commencing on or before January 1, 1979, and the period commencing}~~ May 1 and ending April 30 for each twelve-month period ~~{commencing May 1, 1979, and thereafter}~~ [or any other consecutive twelve month period designated by the District from time to time].

General Fund shall mean the Salt River Project Agricultural Improvement and Power District General Fund which has been created and maintained pursuant to the Act.

Investment Securities shall mean ~~{and include}~~ any ~~{of the following}~~ securities ~~{,}~~ if and to the extent the same are at the time legal for investment of District funds. ~~{:~~

~~(i) Direct obligations of or obligations guaranteed by, the United States of America or the State of Arizona;~~

~~(ii) Certificates of deposit, and banker's acceptances whose maturity value shall not be greater than 1/25 of the capital and surplus of the accepting bank;~~

~~(iii) Bonds, debentures or notes issued by any of the following Federal Agencies: Bank for Cooperatives; Federal Intermediate Credit Banks; Federal Home Loan Bank System; Export Import Bank of Washington; Federal Land Banks; the Federal National Mortgage Association (including Participation Certificates issued by such Association); or the Government National Mortgage Association; the United States Postal Service; the Tennessee Valley Authority; or any Agency or instrumentality of the United States of America which shall be established for the purpose of acquiring the obligations of any of the foregoing or otherwise providing financing therefor;~~

~~(iv) Public Housing Bonds issued by public agencies and municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an Annual Contributions Contract or Contracts with the United States of America; or Project Notes issued by public agencies or municipalities, in each case, fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America; and~~

~~(v) Direct and general obligations of any State within the territorial United States, to the payment of the principal of an interest on which the full faith and credit of such State is pledged, provided that at the time of their purchase under the Resolution, such obligations are rated in any of the three highest rating categories by a nationally recognized bond rating agency.~~

Irrigation Plant shall mean all land and land rights, structures, facilities and equipment used or usable by the District or the Salt River Valley Water Users' Association solely for the development, storage, transportation, distribution and delivery of water to the owners or occupants of the lands within the Salt River Project having rights thereto or to anyone acting on behalf thereof pursuant to contracts with the Salt River Valley Water Users' Association or the District.

~~{Maximum Annual Debt Service shall mean, as of any date of calculation and with respect to any Series, an amount equal to the greatest amount of Debt Service with respect to such Series for the current or any future Fiscal Year.}~~

Operating Expenses shall mean the District's expenses of operating the Electric System, including[, without limiting the generality of the foregoing,] all costs of purchased power, operation, maintenance, generation, production, transmission, distribution, repairs, replacements, engineering ~~{, transportation}~~ [and transportation required for the operation of the Electric System (including any payments made pursuant to a "take-or-pay" electric supply or energy contract that obligates the District to pay for fuel, energy or power, so long as fuel or energy is delivered or made available for delivery)], administrative and general, audit, legal, financial, pension, retirement, health, hospitalization, insurance, taxes~~{,}~~ and any other expenses actually paid or accrued, without limitation, expenses of the District applicable to the Electric System, as recorded on its books pursuant to Accounting Practice and any other expenses of the District applicable to the Electric System, as recorded on its books pursuant to Accounting Practice, and any other expenses incurred or payments by the District under the provisions of the Resolution or in discharge of obligations required to be paid by local, state or federal laws, all to the extent properly allocable to the Electric System under Accounting Practice[, including those expenses the payment of which is not immediately required, such as those expenses related to the funding of a reserve in the Operating Fund].

Operating Expenses shall not include any costs or expenses for ~~{new construction,}~~ falling water used in hydroelectric operations of the District, charges for depreciation, voluntary payments in lieu of taxes and operation, maintenance, repairs, replacement and construction of the Irrigation Plant.

Outstanding when used with reference to Bonds, shall mean, as of any date, Bonds theretofore or thereupon being authorized and delivered under the Resolution except:

(i) Any Bonds cancelled by the Trustee at or prior to such date;

(ii) Bonds (or portions of Bonds) for the payment or redemption of which moneys, equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, shall be held in trust under the Resolution and set aside for such payment or redemption (whether at or prior to the maturity or redemption date), provided that if such Bonds (or portions of Bonds) are to be redeemed, notice of such redemption shall have been given as in Article IV provided or provisions satisfactory to the Trustee shall have been made for the giving of such notice;

(iii) Bonds in lieu of or in substitution for which other Bonds shall have been delivered pursuant to Article III or Sections 4.06 or 11.06; and

(iv) Bonds deemed to have been paid as provided in subsection 2 of Section 12.01.

Paying Agent shall mean any bank or trust company designated as paying agent for the Bonds of any Series, and its successor or successors hereafter appointed in the manner provided in the Resolution.

Principal Installment shall mean, as of any date of calculation and with respect to any Series, so long as any Bonds thereof are Outstanding, (i) the principal amount of Bonds of such Series due on a certain future date for which no Sinking Fund Installments have been established, or (ii) the unsatisfied balance of any Sinking Fund Installments due on a certain future date for Bonds of such Series, plus the amount of the

sinking fund redemption premiums, if any, which would be applicable upon redemption of such Bonds on such future date in a principal amount equal to said unsatisfied balance of such Sinking Fund Installments, or (iii) if such future dates coincide as to different Bonds of such Series, the sum of such principal amount of Bonds and of such unsatisfied balance of Sinking Fund Installments due on such future date plus such applicable redemption premiums, if any.

~~{ Prior Lien Bond Resolutions shall mean the bond resolutions of the District authorizing the issuance of: \$7,332,000 Refunding Corporate Bonds, Bond Issue Number One, Series A, B, C & D, adopted July 3, 1944; \$1,929,000 Refunding Corporate Bonds, Bond Issue Number One, Series E, F, G, H & I, all adopted November 3, 1948; \$3,500,000 Corporate Bonds, Bond Issue Number Four, adopted July 26, 1950; \$4,500,000 Corporate Bonds, Bond Issue Number Five, adopted January 30, 1951; \$5,000,000 Corporate Bonds, Bond Issue Number Six (first installment), adopted December 1, 1952; \$5,000,000 Corporate Bonds, Bond Issue Number Six (second installment), adopted December 7, 1953; \$3,500,000 Corporate Bonds, Bond Issue Number Six (third installment), adopted May 4, 1954; \$11,000,000 Corporate Bonds, Bond Issue Number Seven (first installment) adopted April 25, 1956; \$5,000,000 Corporate Bonds, Bond Issue Number Eight, Series B, adopted February 9, 1959; \$15,000,000 Salt River Project Bonds, Bond Issue Number Nine, Series A, adopted November 9, 1959; \$15,000,000 Salt River Project Bonds, Bond Issue Number Nine, Series B, and \$4,000,000 Salt River Project Bonds, Bond Issue Number Nine, Series C, adopted July 6, 1960; \$10,000,000 Salt River Project Bonds, Bond Issue Number Ten, Series A, adopted May 7, 1962; \$6,000,000 Salt River Project Bonds, Bond Issue Number Ten, Series B, and \$8,000,000 Salt River Project Bonds, Bond Issue Number Ten, Series C, adopted August 31, 1965; \$13,470,000 Salt River Project Refunding Bonds, Bond Issue Number Eleven, adopted August 31, 1965; \$32,000,000 Salt River Project Bonds, Bond Issue Number Twelve, Series A adopted January 8, 1968; \$16,000,000 Salt River Project Bonds, Bond Issue Number Twelve, Series B, adopted January 6, 1969; \$10,000,000 Salt River Project Bonds, Bond Issue Number Thirteen, adopted January 6, 1969; \$36,000,000 Salt River Project Bonds, Bond Issue Number Fourteen, Series A, adopted February 10, 1970; \$40,000,000 Salt River Project Bonds, Bond Issue Number Fourteen, Series B, adopted November 2, 1970; \$52,000,000 Salt River Project Bonds, Bond Issue Number Fourteen, Series C, adopted October 4, 1971; \$49,000,000 Salt River Project Bonds, Bond Issue Number Fourteen, Series D, adopted March 6, 1972; together with all supplemental resolutions adopted in accordance with the terms thereof, and certain loan agreements with the United States of America, heretofore, or hereafter made or assumed by the District.~~

~~Prior Lien Bonds shall mean outstanding bonds of the District authorized and issued pursuant to the Prior Lien Bond Resolutions; and all outstanding loans with the United States of America, heretofore, or hereafter made or assumed by the District which have a prior lien on revenues of the Electric System.~~

~~Prior Lien Debt Service for any period shall mean, as of any date of calculation all payments required by the Prior Lien Bond Resolutions on account of principal and interest for the Prior Lien Bonds, and all such loan repayments made to the United States of America.~~

~~Project shall mean the purchase, replacement, construction, leasing or acquisition of any real or personal property or interest therein, works or facilities which the District is authorized by law to purchase, replace, construct, lease or otherwise acquire, or the improvement, reconstruction, extension or addition to any real or personal property, works or facilities owned or operated by the District, or any program of development involving real or personal property, works or facilities which the District is authorized by law to purchase, replace, construct, lease or otherwise acquire or the improvement, reconstruction, extension or addition to such program.~~

~~[Put Bonds shall mean Bonds which by their terms may be tendered by and at the option of the owner thereof, or are subject to a mandatory tender, for payment or purchase prior to the stated maturity or redemption date thereof.~~

~~Rate Stabilization Fund shall mean the Salt River Project Electric System Rate Stabilization Fund established in Section 5.02.]~~

Redemption Price shall mean, with respect to any Bond, the principal amount thereof plus the applicable premium, if any, payable upon redemption thereof pursuant to such Bond or the Resolution.

Refunding Bonds shall mean all Bonds, whether issued in one or more Series, issued and delivered pursuant to Section 2.05 and thereafter delivered in lieu of or in substitution for such Bonds pursuant to Article III or Sections 4.06 or 11.06.

Resolution shall mean this [Amended and Restated] Resolution [Concerning Revenue Bonds] as from time to time amended or supplemented by Supplemental Resolutions in accordance with the terms hereof.

~~{ Retirement Date of the Prior Lien Bonds shall mean the date on which all of the Prior Lien Bonds shall be paid or deemed to be paid in accordance with the provisions of the Prior Lien Bond Resolutions. }~~

Revenue Fund shall mean the Salt River Project Electric System Revenue Fund established in Section 5.02.

Revenues shall mean (i) all ~~{ funds transferred by order of the Treasurer of the District from the "Electric Revenue Fund" (established, created and maintained pursuant to the Prior Lien Bond Resolutions) to the General Fund of the District for deposit in the Revenue Fund pursuant to Sections 5.04 and 7.16 hereof and (ii) after the Retirement Date of the Prior Lien Bonds all }~~ revenues, income, rents and receipts derived by the District from the ownership and operation of the Electric System and the proceeds of any insurance covering business interruption loss relating to the Electric System and ~~{ (iii) }~~ [(ii)] interest received on any moneys or securities (other than in the Construction Fund) held pursuant to the Resolution and paid into the Revenue Fund[, but not including any such income or receipts attributable directly or indirectly to the ownership or operation of any Separately Financed Project and not including any federal or state grant monies the receipt of which is conditioned upon their expenditure for a particular purpose].

Revenues Available For Debt Service for any Fiscal Year or period of 12 calendar months shall mean all ~~{ revenues, income, rents and receipts derived by the District from the ownership and operation of the Electric System, and the proceeds of any insurance covering business interruption loss relating to the Electric System for such year or period, and interest received on any moneys or securities (other than in the Construction Fund) held pursuant to the Prior Lien Bond Resolutions and the Resolution, }~~ [Revenues] less Operating Expenses for such ~~{ year or period }~~ [Fiscal Year or period].

Separately Financed Project means any project described as such in Section 2.06.]

Series shall mean all of the Bonds issued pursuant to a Series Resolution, and any Bonds thereafter delivered in lieu of or in substitution for such Bonds pursuant to Article III or Sections 4.06 or 11.06, regardless of variations in maturity, interest rate, Sinking Fund Installments, or other provisions. If a Series of Bonds is sold in installments, Series shall mean all the Bonds of such installment.

Series Resolution shall mean a resolution of the District authorizing the issuance of a Series of Bonds adopted by the District in accordance with Article II and any subsequent resolution of the District which provides for the sale of all or part of such Series of Bonds.

Sinking Fund Installment shall mean an amount so designated which is established pursuant to subsection (11) of Section 2.02.

Subordinated Indebtedness shall mean any evidence of debt referred to in, and complying with the provisions of, Section 5.09.

Supplemental Resolution shall mean any resolution supplemental to or amendatory of the Resolution, adopted by the District in accordance with Article X.

Trustee shall mean the trustee appointed pursuant to Article IX, and its successor or successors and any other corporation which may at any time be substituted in its place pursuant to the Resolution.

Except where the context otherwise requires, words importing the singular number shall include the plural number and vice versa, and words importing persons shall include firms, associations {and} [], corporations [and governmental entities].

~~{The principal and interest portions of the Accreted Value (as defined in an applicable Series Resolution) of Capital Appreciation Bonds (as defined in an applicable Series Resolution) becoming due at maturity or by virtue of a Sinking Fund Installment shall be included in the calculations of accrued and unpaid and accruing interest of Principal Installments made under the definitions of Debt Service, Aggregate Debt Service and Accrued Aggregate Debt Service only from and after the date (the "Calculation Date") which is one year prior to the date on which such Accreted Value becomes so due, and the principal and interest portions of such Accreted Value shall be deemed to accrue in equal daily installments from the Calculation Date to such due date.}~~

1.02 Authority for the Resolution. The Resolution is adopted pursuant to the provisions of the Act.

1.03 Resolution to Constitute Contract. In consideration of the purchase and acceptance of any and all of the Bonds authorized to be issued hereunder by those who shall hold the same from time to time, the Resolution shall be deemed to be and shall constitute a contract between the District and the Holders from time to time of the Bonds and ~~{coupons and}~~ the pledge made in the Resolution and the covenants and agreements therein set forth to be performed on behalf of the District shall be for the equal benefit, protection and security of the Holders of any and all of the Bonds ~~{and coupons}~~, all of which, regardless of the time or times of their authentication and delivery or maturity, shall be of equal rank without preference, priority or distinction of any of the Bonds ~~{or coupons}~~ over any other thereof except as expressly provided in or permitted by the Resolution.

ARTICLE II

AUTHORIZATION AND ISSUANCE OF BONDS

2.01 Authorization of Bonds. There is hereby established and created an issue of Bonds of the District to be known and designated as "Salt River Project Electric System Revenue Bonds", which Bonds may be issued as hereinafter provided without limitation as to amount except as provided in the Resolution or as may be hereafter limited by law. The Bonds shall not constitute general obligations of the District, and no Holder or Holders of any of the Bonds shall ever have the right to compel any exercise of the taxing powers of the District to pay the Bonds or the interest thereon, and each Bond issued pursuant to this Resolution shall recite in substance that said Bond, including interest thereon, is payable from the Revenues and other funds pledged to the payment thereof. All Bonds shall be equally and ratably secured without priority by reason of Series designation, number, date of Bonds, date of sale, execution, maturity, or delivery, by a lien on the Revenues and other funds pledged to the payment thereof, all in accordance with the provisions of the Act and this Resolution.

2.02 Provisions for Issuance of Bonds. The issuance of the Bonds may be authorized by a Series Resolution or Series Resolutions of the District adopted subsequent hereto, in one or more Series. The Bonds of each Series may be sold in one or more installments. The Bonds of each Series shall, in addition to the Title "Salt River Project Electric System Revenue Bonds", contain an appropriate Series designation. If a Series of Bonds is sold in one or more installments it shall, in addition to its Series designation, contain a designation distinguishing it from other installments of said Series.

Each Series Resolution authorizing the issuance of a Series of Bonds shall also specify or provide the manner of determining:

- (1) the authorized principal amount of such Series of Bonds;
- (2) the purposes for which the Bonds of such Series are being issued, which shall be only the payment or reimbursement of the Cost of Construction of a Project for the Electric System, or the refunding of obligations previously issued with respect to a Project for the Electric System, which obligations to be refunded shall be specified in such Series Resolution[, or any other lawful purpose];
- (3) the date or dates, maturity date or dates and the interest payment date or dates, or the manner of determining the same;

- (4) the interest rate or rates[, if any,] or the manner of determining such rate or rates;
- (5) the denomination or denominations of the Bonds of such Series, provided that each Bond shall be in the denomination of \$5,000 or an integral multiple thereof, not exceeding the aggregate principal amount of the Bonds of such Series, or in the case of the sale of a Series of Bonds in installments such installment, maturing in the year of maturity of the Bond for which the denomination is to be specified or, in such other denominations as shall be provided in the Series Resolution;
- (6) the premiums, if any, to be paid upon the redemption of the Bonds of such Series, and the terms of such redemption;
- (7) the place or places of payment of the principal of and interest and redemption premium, if any, on the Bonds of such Series;
- (8) provisions for the sale or other disposition of the Bonds of such Series;
- (9) the forms of the Bonds of such Series, and ~~{of the coupons to be attached to the coupon Bonds of such Series;}~~ **[if the Bonds are Put Bonds, provisions regarding the tender for purchase thereof and payment of the purchase price thereof;]**
- (10) the officers of the District directed to execute the Bonds of such Series by either manual or facsimile signature;
- (11) the amount and due date of each Sinking Fund Installment for the Bonds of such Series, if any; and
- (12) any other provisions deemed advisable by the District not in conflict with the provisions of this Resolution.

When a Series of Bonds is sold in installments, each such installment may have details, terms and provisions which differ from other installments of the same Series of Bonds, all as provided by Series Resolution.

[Bonds shall be delivered in accordance with a Series Resolution but only upon receipt by the Trustee of:

- (1) A Counsel's Opinion to the effect that (a) the District has the right and power under the Act to adopt the Series Resolution, and the Series Resolution has been duly and lawfully adopted by the District, is in full force and effect, and is valid and binding upon the Authority, and enforceable in accordance with its terms, and no other authorization for the Series Resolution is required; (b) the Series Resolution creates the valid pledge which it purports to create in the manner and to the extent provided therein; (c) the Bonds are valid, binding, direct and general obligations of the District, enforceable in accordance with their terms and the terms of the Series Resolution and entitled to the benefits of the Act, and such Bonds have been duly and validly authorized and issued in accordance with law and the Series Resolution; and (d) the District has good right and lawful authority under the Act to effectuate the purposes for which the proceeds of such Bonds will be utilized, subject, in the case of Bonds issued for other than refunding purposes, to obtaining such licenses, orders or other authorizations, if any, as, at the date of such Counsel's Opinion, may be required to be obtained from any agency or regulatory body having lawful jurisdiction in order to effectuate such purposes;
- (2) A certified copy of the Series Resolution and certificate of determination of an Authorized Officer of the District, if any, authorizing such Bonds;
- (3) A written order of the District as to the delivery of the Bonds, signed by an Authorized Officer of the District;
- (4) Such further documents and moneys as are required by the Series Resolution authorizing such Bonds; and

(5) A certificate of an Authorized Officer of the District to the effect that, upon the delivery of the Bonds, the District will not be in default in the performance of the terms and provisions of the Resolution.]

2.03 Dates, Form of Bonds and Bond Proceeds. 1. Each Series of Bonds shall mature on ~~{January 1 of each year in which a maturity is provided for by}~~ [such dates and in such amounts, bear interest at such rate or rates payable on such dates, and be subject to redemption upon such terms all as provided in] the Series Resolution authorizing the issuance of such Series of Bonds. ~~{Interest on all Bonds of each Series shall be payable semiannually on January 1 and July 1 of each year in which an installment of interest becomes due as fixed by a Series Resolution.}~~ All Bonds of each installment of a Series of like maturity shall be identical in all respects except as to denominations and numbers and ~~{except that they may be in either coupon form registrable as to principal only or}~~ in fully registered form without coupons. ~~{For the purpose of this Section 203 only, the subseries of STARS (as defined in the applicable Series Resolution), the subseries of STRIPES (as defined in the applicable Series Resolution) and the Fixed Rate Bonds (as defined in the applicable Series Resolution) shall each be treated as an individual series of Bonds.}~~

2. The proceeds, including accrued interest, of the Bonds of each Series shall be applied simultaneously with the delivery of such Bonds, as follows:

(1) There shall be deposited in the Debt Service Account (i) an amount equal to the accrued interest on such Bonds to the date of such delivery, and (ii) if and to the extent provided in the Series Resolution authorizing such Bonds, such additional amount as may be necessary so that the sum deposited in such Account shall equal the unpaid interest accrued and to accrue on all Bonds issued for such Project to a date not later than ~~{one year subsequent to}~~ the estimated date of completion of such Project, or such longer period ~~{if authorized by the Act}~~ [as may be provided by the Series Resolution authorizing the issuance of such Series of Bonds];

(2) There shall be deposited in the Debt Reserve Account the amount, if any, provided for by the Series Resolution authorizing the issuance of such Series of Bonds; and

(3) The remaining balance shall be deposited in the Construction Fund.

2.04 Additional Bonds. 1. ~~{Except for the initial \$75,000,000 of Bonds issued hereunder, the District will not issue any Bonds or other obligations or create any additional indebtedness}~~ [The District may from time to time issue Bonds pursuant to a Series Resolution] which will rank on a parity with ~~{or have priority over the}~~ [and be secured by an equal] charge and lien on the Revenues ~~{except that Bonds may be issued from time to time pursuant to Series Resolutions on a parity and secured by an equal charge and lien on such Revenues}~~ [, upon satisfaction of the conditions to the issuance of Bonds contained in Section 2.02,] only if, (a) Revenues Available For Debt Service, adjusted as provided in paragraph 3 hereof, of any 12 consecutive calendar months out of the 24 calendar months next preceding the issuance of such proposed additional Bonds, are not less than one and ~~{twenty}~~ [ten] hundredths (1 ~~{20/100ths}~~) [10/100ths] times the maximum total Debt Service ~~{and Prior Lien Debt Service}~~ for any succeeding year on all Bonds ~~{and Prior Lien Bonds}~~ which will be outstanding immediately prior to the issuance of the proposed additional Bonds, [and] (b) the estimated Revenues Available For Debt Service, adjusted as provided in paragraph 4 hereof, for each of the five (5) Fiscal Years immediately following the issuance of such proposed additional Bonds are not less than one and ~~{thirty-five}~~ [ten] hundredths (1 ~~{35/100ths}~~) [10/100ths] times the total, for each such respective Fiscal Year, of the Debt Service ~~{and Prior Lien Debt Service}~~ on all ~~{Bonds and Prior Lien Bonds which will be outstanding immediately subsequent to the issuance of the proposed additional Bonds, and (c) the estimated Revenues Available For Debt Service, adjusted as provided in paragraph 4 hereof, for such fifth Fiscal Year are not less than one and thirty-five hundredths (1 35/100ths) times the maximum total of Debt Service and Prior Lien Debt Service for any succeeding year on all Bonds and Prior Lien}~~ Bonds which will be outstanding immediately subsequent to the issuance of the proposed additional Bonds.

2. Prior to the issuance of any additional Bonds evidencing additional indebtedness, the payment of principal, interest and Redemption Price of which additional Bonds will be a lien on the Revenues on a parity with previously issued Series of Bonds, the District shall obtain a certificate of an Authorized Officer of the

District evidencing full compliance with the provisions of ~~{clause}~~ **[clauses]** (a) ~~{of subsection 1 of this Section}~~ and ~~{a certificate of an Authorized Officer of the District, which certificate shall be approved by the Consulting Engineer, evidencing full compliance with the provisions of clauses}~~ (b) ~~{and (c)}~~ of subsection 1 of this Section.

3. In determining the amount of Revenues Available For Debt Service for the purposes of clause (a) of subsection 1 of this Section, the Authorized Officer of the District may adjust the Revenues Available For Debt Service by adding thereto the following:

(i) in the event the District shall have acquired an operating utility or facility subsequent to the beginning of the 12 month period selected pursuant to clause (a) of subsection 1 of this Section, an estimate made by an Authorized Officer of the District of such additional Revenues Available For Debt Service for such 12 month period which would have resulted had such operating utility or facility been acquired at the beginning of such 12 month period; ~~{and}~~

(ii) in the event any adjustment of rates with respect to the Electric System shall have become effective subsequent to the beginning of the 12 month period selected pursuant to clause (a) of subsection 1 of this Section, an estimate made by an Authorized Officer of the District of such additional Revenues Available For Debt Service for such 12 month period which would have resulted had such rate adjustment been in effect for the entire period[; and]

~~{4. In determining the amount of estimated Revenues Available For Debt Service for the purpose of clauses (b) and (c) of subsection 1 of this Section, the}~~ **[(iii) an estimate made by an]** Authorized Officer of the District ~~{with the approval of the Consulting Engineers may adjust the }~~ **[of the amounts from the Rate Stabilization Fund which have been transferred to pay Debt Service for the 12 month period selected pursuant to clause (a) of subsection 1 of this Section.**

4. In determining the amount of] estimated Revenues Available For Debt Service ~~{by adding thereto any estimated increase in revenue resulting from any increase in electric rates which, in the opinion of }~~ **[for the purpose of clause (b) of subsection 1 of this Section,]** the Authorized Officer of the District ~~{and the Consulting Engineers}~~ **[may adjust the estimated Revenues Available For Debt Service by adding thereto any estimated increase in revenue resulting from any increase in electric rates or any amount on deposit in the Rate Stabilization Fund which is expected to be transferred by the District to pay Debt Service or to offset any increase in electric rates, which, in the opinion of the Authorized Officer of the District],** are economically feasible, and reasonably considered necessary based on projected operations for such 5 year period.

5. The ~~{certificates}~~ **[certificate]** required by subsection 2 of this Section shall be conclusive evidence and the only evidence required to show compliance with the provisions and requirements of this Section.

2.05 **Refunding Bonds.** 1. One or more Series of Refunding Bonds may be issued at any time to refund ~~{(a)}~~ any part or all of the ~~{Bonds of any one or more Series then Outstanding, or (b) any part or all of the Prior Lien}~~ Bonds of any one or more Series then Outstanding. Refunding Bonds shall be issued in a principal amount sufficient, together with other moneys available therefor, to accomplish such refunding and to make the deposits in the Debt Service Fund required by the provisions of this Section or by the provisions of the Series Resolution authorizing such Bonds.

2. Refunding Bonds of each Series issued ~~{pursuant to clause (a) of subsection 1 of this Section}~~ to refund any part or all of the Bonds of any one or more Series then Outstanding may be delivered by the District upon receipt by the Trustee of:

(a) Irrevocable instructions to the Trustee, satisfactory to it, to give due notice of redemption of all the Bonds to be refunded on a redemption date specified in such instructions;

(b) If the Bonds to be refunded are not by their terms subject to redemption within the next succeeding 60 days, irrevocable instructions to the Trustee, satisfactory to it, to make due publication of the notice provided for in Section 12.01 to the Holders of the Bonds ~~{and coupons}~~ being refunded;

(c) Either (i) moneys in an amount sufficient to effect payment at the applicable Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds to the redemption date, which moneys shall be held by the Trustee or any one or more of the Paying Agents in a separate account irrevocably in trust for ~~and~~ **[the benefit of such Refunding Bonds until such time as such amount shall be]** assigned to the respective Holders of the Bonds to be refunded ~~, or (ii) Investment~~ **[for payment of the Redemption Price of the Bonds to be refunded, together with accrued interest, on the redemption date, or (ii) Defeasance]** Securities in such principal amounts, of such maturities, bearing such interest, and otherwise having such terms and qualifications, as shall be necessary to comply with the provisions of subsection 2 of Section 12.01 and any moneys required pursuant to said subsection 2, which ~~Investment~~ **[Defeasance]** Securities and moneys shall be held in trust and used only as provided in ~~said~~ subsection **[2.05(c) (i) above]**; and

(d) ~~{A}~~ **[Either (i) a]** certificate of an Authorized Officer of the District ~~{setting forth (i)}~~ **[as required by paragraph 2 of Section 2.04 or (ii) a certificate of an Authorized Officer of the District setting forth (1)]** the Aggregate Debt Service for the then current and each future Fiscal Year to and including the Fiscal Year next preceding the date of the latest maturity of any Bonds of any Series then Outstanding (A) with respect to the Bonds of all Series Outstanding immediately prior to the date of delivery of such Refunding Bonds, and (B) with respect to the Bonds of all Series to be Outstanding immediately thereafter, and ~~{(ii)}~~ **[(2)]** that the Aggregate Debt Service set forth for each Fiscal Year pursuant to (B) above is no greater than that set forth for such Fiscal Year pursuant to (A) above.

The proceeds, including accrued interest, of the Refunding Bonds of each such Series shall be applied simultaneously with the delivery of such Bonds in the manner provided in the Series Resolution authorizing such Bonds.

3 ~~{Refunding Bonds of a Series issued pursuant to clause (b) of subsection 1 of this Section to refund any part or all of the Prior Lien Bonds of any one or more Series then outstanding may be delivered by the District upon receipt by the Trustee of:~~

~~(a) Evidence, satisfactory to the Trustee, that the pledge of the revenues and other moneys and securities under the Prior Lien bond Resolutions and all covenants, agreements and other obligations of the District thereunder to holders of the Prior Lien Bonds being refunded shall have ceased, terminated and become void and shall be discharged and satisfied; and~~

~~(b) Each of the certificates referred to in subsection 2 of Section 2.04, the requirements of which are hereby made applicable to such Series of Refunding Bonds.~~

~~The proceeds, including accrued interest, of the Refunding Bonds of such Series shall be applied simultaneously with the delivery of such Bonds as follows: (i) There shall be deposited in the debt service Account in the Debt Service Fund an amount equal to the accrued interest on such bonds to the date of such delivery; (ii) There shall be deposited in the Debt Reserve Account in the Debt Service Fund the amount, if any, required for such purpose by the Series Resolution authorizing such Refunding Bonds; and (iii) The remaining balance shall be applied to the refunding of the Prior Lien Bonds, including expenses in connection therewith.~~

4). Any balance of the proceeds of Refunding Bonds not needed for the purposes provided in this Section or in the Series Resolution authorizing such Bonds may be used by the District, to the extent necessary, to pay any expenses incurred in connection with the issuance of such Refunding Bonds and, thereafter, any remaining balance not so needed by the District shall be deposited in the Revenue Fund.

[2.06 Separately Financed Projects. Nothing in this Resolution shall prevent the District from authorizing and issuing bonds, notes or other obligations or evidences of indebtedness, other than Bonds, for any project authorized by the Act, or from financing any such project from other available funds (such project being referred to herein as a "Separately Financed Project"), if the debt service on such bonds, notes, or other obligations or evidences of indebtedness, if any, and the District's share of any operating expenses related to such Separately Financed Project, are payable solely from the revenues or other income derived from the ownership or operation of such Separately Financed Project.]

ARTICLE III

GENERAL TERMS AND PROVISIONS OF BONDS

3.01 Execution [and Authentication. 1]. Bonds of each Series shall be signed by the ~~{president or vice president and the secretary or assistant secretary}~~ **[President or Vice President and the Secretary or Assistant Secretary]** of the District, either manually or by their printed, engraved or lithographed facsimile signatures, with the seal of the District or a facsimile thereof affixed thereto, as fixed by a Series Resolution. Each Bond of each Series shall be numbered and shall bear the date of its issue as provided by Series Resolution, so as to be distinguished from every other Bond. ~~{Coupons for the several installments of interest shall be attached to each coupon Bond and shall bear the facsimile signature of the Secretary or Assistant Secretary, as fixed by Series Resolution.}~~ Bonds shall express on their faces that they are signed by authority of Article 7 of the Act. Bonds shall be valid and binding obligations notwithstanding that before the delivery thereof and payment therefor either or both of the persons whose signatures appear thereon shall have ceased to be such officers of the District. All Bonds shall be payable as to interest, principal and premium, if any, in any coin or currency which, on the respective dates of payment thereof, shall be legal tender for the payment of public and private debts.

[2. Except as otherwise provided in a Series Resolution with respect to the Series of Bonds authorized thereunder, Bonds shall bear thereon a certificate of authentication, in the form set forth in the Series Resolution authorizing such Series of Bonds, executed manually by the Trustee. Except as otherwise provided in a Series Resolution with respect to the Series of Bonds authorized thereunder, no Bond shall be entitled to any right or benefit under the Resolution or shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee. Such certificate of the Trustee upon any Bond executed on behalf of the District shall be conclusive evidence that the Bond so authenticated has been duly authenticated and delivered under the Resolution and that the Owner thereof is entitled to the benefits hereof.]

3.02 Form, Ownership and Transfer of Bonds. Bonds of each Series may be issued in the form of ~~{coupon Bonds registrable as to principal only, or in the form of}~~ fully registered. Except as otherwise provided in a Series Resolution with respect to the Series of Bonds authorized thereunder, no Bond shall be entitled to any right or benefit under the Resolution or shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee. Such certificate of the Trustee upon any Bond executed on behalf of the District shall be conclusive evidence that the Bond so authenticated has been duly authenticated and delivered under the Resolution and that the Owner thereof is entitled to the benefits hereof.

3.02 Form, Ownership and Transfer of Bonds. Bonds of each Series may be issued in the form of fully registered Bonds without coupons, ~~{or as a combination thereof,}~~ all as provided by the Series Resolution authorizing each Series. ~~{The coupon Bonds, except while registered as to principal otherwise than to bearer, and coupons, shall pass by delivery as negotiable instruments payable to bearer. The registration of any coupon Bond as to principal only shall not affect the negotiability of the coupons thereto appertaining, which shall remain payable to bearer and pass by delivery.}~~ The District, the Trustee, the Paying Agents and any other person may treat the ~~{bearer (or if such Bond be registered, the Registered Owner) of any coupon Bond, the}~~ registered owner of any registered Bond, ~~{the bearer of any coupon Bond registered as payable to bearer, and the bearer of any coupon whether or not the Bond to which said coupon appertains is registered as to principal,}~~ as the absolute owner of such Bond ~~{or coupon, as the case may be,}~~ for the purpose of making payment thereof and for all other purposes, and neither the District nor the Trustee nor the Paying Agents shall be bound by any notice or knowledge to the contrary, whether such Bond ~~{or coupon}~~ shall be overdue or not. All payments of or on account of interest to ~~{any bearer of any coupon, or to any}~~ registered owner of any registered Bond (or to his registered assigns), and all payments of or on account of principal to ~~{any bearer (or if such Bond be registered, the}~~ registered owner, or to any bearer of any bond registered to bearer) of any coupon Bond, or to any registered owner of any registered Bond, shall be valid and effectual and shall be a discharge of the District, the Trustee and the Paying Agents, in respect of the liability upon the Bond or ~~{coupon or}~~ claim for interest, as the case may be, to the extent of the sum or sums so paid.

3.03 ~~{Registration of Coupon Bonds. Upon presentation to the District by any bearer of any coupon Bond containing provisions for registration as to principal only for the purpose of registering such Bonds as to principal only, the District will, under such reasonable regulations as it may prescribe from time to time, register in books it will keep for this purpose, in the name of the bearer or his nominee, the ownership as to principal only, of any such presented coupon bond, and}~~ [Book-Entry-Only System. Notwithstanding any other provision of the Resolution, the District may employ a book-entry-only system of registration with respect to any Series of Bonds. The procedures regarding] such registration shall be ~~{noted on the Bond. After such registration and notation, no transfer of any such coupon Bond registered otherwise than as to bearer shall be valid unless evidenced by a written instrument of transfer, in form satisfactory to the District, duly executed by the registered owner in person or by his duly authorized agent; but any such coupon Bond so registered may be discharged from registration, and transferability by delivery be restored, by a like transfer to bearer, similarly registered and noted, and after such transfer to bearer such Bond shall be a bearer Bond. Any such coupon Bond containing provisions for registration may again, from time to time, in like manner, be registered as to principal only, or be transferred to bearer.}~~ [set forth in the Series Resolution authorizing such Series of Bonds and the District may, if necessary, amend the Resolution pursuant to Section 10.01 to achieve such book-entry-only registration system. Notwithstanding the foregoing, any provisions of the Resolution inconsistent with book-entry-only Bonds shall not be applicable to such book-entry-only Bonds.]

3.04 **Transfer of Registered Bonds.** ~~{Except as herein provided in the case of coupon Bond registrable as to principle only, the}~~ [The] Trustee shall keep, as Bond Registrar (hereinafter referred to as the "Registrar") at all times while any of the Bonds containing provisions for registration and transfer shall be outstanding and unpaid, books for the registration and transfer of such Bonds. Any registered Bond containing provisions for transfer may be transferred pursuant to the provisions thereof at the principal office of the Registrar by surrender of such Bond for cancellation, accompanied by a written instrument of transfer, in form satisfactory to the Registrar, duly executed by the registered owner in person or by his duly authorized agent, and thereupon the District will issue and deliver at the office of the Registrar (or send by registered mail to the owner thereof at the owner's expense), in the name of the transferee or transferees, a new registered Bond, of like Series, form, interest rate, principal amount and maturity, dated so that there shall result no gain or loss of interest as a result of such transfer. To the extent of denominations authorized in respect of any such Bond by the terms thereof, or by the terms of this Resolution, one such registered Bond may be transferred for several such registered Bonds of like Series, form, interest rate and maturity, and for a like aggregate principal amount, and several such registered Bonds may be transferred for one or several such registered Bonds, respectively, of like Series, form, interest rate and maturity and for a like aggregate principal amount. If so provided in the Series Resolution, the District or the Bond Registrar shall not be obligated to transfer or exchange any registered Bonds of such Series during the 15 days preceding the date on which notice of redemption of a Bond is to be given or any Bond that has been called for redemption except the unredeemed portion of any Bond being redeemed in part.

3.05 **Exchange of Bonds.** The ~~{bearer of any coupon Bond which at the time is not registered or is registered as to principal to bearer, and the}~~ registered owner of any registered Bond ~~{or any coupon Bond registered as to principal otherwise than to bearer,}~~ may at any time (provided such Bond shall not have been called for redemption) surrender the same at the principal office of the Registrar ~~{in the case of coupon Bonds with all unmatured coupons attached, and in the case of registered Bonds or coupon Bonds registered as to principal,}~~ with instruments of transfer satisfactory to the Registrar, and shall be entitled to receive in exchange therefor an equal aggregate principal amount of Bonds of the same Series, interest rate and maturity, of any one or more of the forms, the issue of which has been provided for with respect to such Series: and the District will issue and deliver at the principal office of the Registrar (or send by registered mail to the owner thereof at the owner's expense) the Bonds necessary to make such exchange.

2. Upon the issue of any registered Bond, the serial number or numbers covering a ~~{coupon}~~ Bond or Bonds of the same Series, interest rate and maturity and an equal aggregate principal amount may be reserved. The serial number or numbers so reserved shall be endorsed on such registered Bond, which may also bear such endorsement or legend satisfactory to the Registrar as may be required to conform to usage or law with respect thereto.

3. Whenever registered Bonds with proper instruments of transfer shall be surrendered to the Registrar for exchange for ~~{coupon}~~ Bonds of like Series, interest rate and maturity, the District shall issue and deliver at the principal office of the Registrar (or send by registered mail to the owner thereof at the owner's expense) in exchange a like principal amount of ~~{coupon}~~ Bonds of the same Series, interest rate and maturity, ~~{in bearer form,}~~ bearing the serial number or numbers so reserved upon the issuance of the registered Bond or Bonds so surrendered, ~~{bearing coupons}~~ so that no gain or loss of interest shall result from such exchange.

~~{4. All coupon Bonds or the coupon appertaining to such Bonds surrendered in any such exchanges or transfers shall be retained in the possession of the Trustee for the purpose of reissuance upon subsequent exchanges or transfers. The Trustee, prior to reissuance of any such coupon Bonds, shall detach therefrom and cancel all matured coupons.}~~

3.06 Charges for and Validity of Bonds Exchanged. 1. As a condition of any exchange or of any registration or transfer, the District at its option may require the payment of a sum sufficient to reimburse it for any stamp tax or other governmental charge that may be imposed thereon. All Bonds executed and delivered in exchange for or upon transfer of Bonds so delivered shall be valid obligations of the District evidencing the same obligation as the Bonds surrendered, and shall be entitled to all the benefits and protection of this Resolution and of the Series Resolution authorizing the issuance of such Bond to the same extent as the Bonds in exchange for or upon transfer of which they were executed and delivered.

2. Anything herein to the contrary notwithstanding, the cost of preparing each new ~~{coupon Bond or}~~ registered Bond upon each exchange or transfer, and any other expenses of the District, or the Trustee, incurred in connection therewith (except any applicable governmental transfer or stamp tax or other charge) shall be paid by the District from the Revenue Fund as an Operating Expense.

3.07 Mutilated, Destroyed and Lost Bonds ~~{and Coupons}~~. In case any Bond ~~{for any coupons thereto appertaining}~~ shall at any time become mutilated or be lost or destroyed, the District in its discretion may execute and deliver a new Bond ~~{or coupons}~~ of like tenor and effect in exchange or substitution for and upon the surrender and cancellation of such mutilated Bond ~~{or coupons appertaining thereto}~~; or in lieu of or in substitution for such destroyed or lost Bond ~~{or coupons}~~, or if such lost Bond ~~{or coupons}~~ shall have matured, instead of issuing a substitute therefor, the District may at its option pay the same without the surrender thereof. ~~{In any event}~~ **[No such substitute Bond shall be issued unless]** the applicant for the issuance ~~{of a substitute Bond or coupons}~~ **[thereof]** shall furnish to the District evidence satisfactory to it of the destruction or loss of the original Bond ~~{or coupons}~~, and ~~{of}~~ the ownership thereof, and also an indemnity bond satisfactory to the District in an amount equal to twice the amount of each such Bond ~~{or coupon}~~, and ~~{no such substitute Bond or coupons shall be issued unless}~~ the applicant for the issuance thereof shall reimburse the District for the expenses incurred by the District in connection with the preparation, execution, issuance and delivery of the substitute Bond ~~{or coupons}~~, and any such substitute Bond ~~{or coupons}~~ shall be equally and proportionately entitled to the security of this Resolution with all other Bonds ~~{and coupons}~~ issued. Notwithstanding anything to the contrary contained in this Section 3.07, the District may at its option waive the requirement of an indemnity bond ~~{with respect to}~~ **[and the payment expenses incurred by the District in connection with the delivery of a substitute Bond for any]** mutilated, destroyed ~~{and lost Bonds when such Bonds are issued in fully registered form without coupons and are not exchangeable for bearer Bonds.}~~ **[or lost Bond.]**

3.08 Temporary Bonds. 1. Until the definitive Bonds of any Series are prepared, the District may execute, in the same manner as is provided in Section 3.01, and deliver, in lieu of definitive Bonds, but subject to the same provisions, limitations and conditions as the definitive ~~{coupon}~~ Bonds except as to the denominations thereof and as to exchangeability for registered Bonds, one or more temporary Bonds (which may be registrable as to principal and interest) substantially of the tenor of the definitive ~~{coupon}~~ Bonds in lieu of which such temporary Bond or Bonds are issued, ~~{but with or}~~ without coupons, in denominations of \$5,000 or any multiples thereof authorized by the District, and with such omissions, insertions and variations as may be appropriate to temporary Bonds. ~~{The installments of interest payable on such temporary Bonds in bearer form shall be payable only upon the presentation and surrender of the coupons therefor attached thereto or upon presentation of such temporary Bonds for notation thereon of the payment of such interest.}~~ The

District at its own expense shall prepare and execute and, upon the surrender of such temporary Bonds, ~~{with all unmatured coupons, and all matured coupons for which no payment or only partial payment has been provided, attached,}~~ for exchange and the cancellation of such surrendered temporary Bonds ~~{and coupons}~~, the Trustee shall authenticate and, without charge to the Holder thereof, deliver in exchange therefor, ~~{definitive coupon Bonds, with appropriate coupons attached or, at the option of the Holder,}~~ definitive registered Bonds, of the same aggregate principal amount and series and maturity as the temporary Bonds surrendered. Until so exchanged, the temporary Bonds shall in all respects be entitled to the same benefits and security as definitive Bonds issued pursuant to the Resolution.

2. All temporary Bonds surrendered in exchange either for another temporary Bond or Bonds or for a definitive Bond or Bonds shall be forthwith cancelled by the Trustee.

3.09 Cancellation and Destruction of Bonds ~~{or Coupons}~~. All Bonds paid or redeemed, either at or before maturity, ~~{together with all unmatured coupons, if any, appertaining thereto,}~~ shall be delivered to the Trustee when such payment or redemption is made, and such Bonds ~~{and coupons}~~, together with all Bonds purchased by the Trustee, shall thereupon be promptly cancelled. ~~{All interest coupons shall be promptly cancelled upon their payment and delivered to the Trustee.}~~ Bonds ~~{and coupons}~~ so cancelled may at any time be cremated or otherwise disposed of by the Trustee, who shall execute a certificate of cremation or disposition in duplicate by the signature of one of its authorized officers describing the Bonds ~~{and coupons}~~ so cremated or disposed of, and one executed certificate shall be filed with the District and the other executed certificate shall be retained by the Trustee.

ARTICLE IV

REDEMPTION OF BONDS

4.01 Privilege of Redemption and Redemption Price. Bonds subject to redemption prior to maturity pursuant to any Series Resolution shall be redeemable, upon published notice as provided in this Article IV, at such times, at such Redemption Prices and upon such terms in addition to the terms contained in this Article IV as may be specified in this Resolution or in the Series Resolution authorizing such Series.

4.02 Redemption at the Election or Direction of the District. In the case of any redemption of Bonds at the election or direction of the District, the District shall give written notice to the Trustee of its election or direction so to redeem, of the redemption date, of the Series, and of the principal amounts of the Bonds of each maturity of such Series to be redeemed (which Series maturities and principal amounts thereof to be redeemed shall be determined by the District in its sole discretion, subject to any limitations with respect thereto contained in the Resolution). In the event notice of redemption shall have been given as in Section 4.05 provided, there shall be paid prior to the redemption date to the appropriate Paying Agents an amount in cash which, in addition to other moneys, if any, available therefor held by such Paying Agents, will be sufficient to redeem on the redemption date at the Redemption Price thereof, plus interest accrued and unpaid to the redemption date, all of the Bonds to be redeemed. The District shall promptly notify the Trustee in writing of all such payments by it to a Paying Agent.

4.03 Redemption Otherwise Than at District's Election or Direction. Whenever by the terms of the Resolution the Trustee is required or authorized to redeem Bonds otherwise than at the election or direction of the District, the Trustee shall select the Bonds to be redeemed, give the notice of redemption and pay out of moneys available therefor the Redemption Price thereof, plus interest accrued and unpaid to the redemption date to the appropriate Paying Agents in accordance with the terms of this Article IV and, to the extent applicable, Section 5.07.

4.04 Selection of Bonds to be Redeemed. If less than all of the Bonds of like maturity of any Series shall be called for prior redemption, the particular Bonds or portions of Bonds to be redeemed shall be selected at random by the Trustee in such manner as the Trustee in its discretion may deem fair and appropriate; provided, however, that the portion of any Bond of a denomination of more than \$5,000 to be redeemed shall be in the principal amount of \$5,000 or an integral multiple thereof, and that, in selecting portions of such Bonds for redemption, the Trustee shall treat each such Bond as representing that number of Bonds of \$5,000

denomination which is obtained by dividing the principal amount of such Bond to be redeemed in part by \$5,000.

4.05 Notice of Redemption. [1.] When the Trustee shall receive notice from the District of its election or direction to redeem Bonds pursuant to Section 4.02, and when redemption of Bonds is authorized or required pursuant to Section 4.03, the Trustee shall give notice, in the name of the District, of the redemption of such Bonds, which notice shall specify the Series and maturities of the Bonds to be redeemed, the redemption date and the place or places where amounts due upon such redemption will be payable and, if less than all of the Bonds of any like Series and maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds so to be redeemed and in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed **[, and, if applicable, that such notice is conditional and the conditions that must be satisfied]**. Such notice shall further state that on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of Bonds to be redeemed in part only, together with interest accrued to the redemption date, and that from and after such date interest thereon shall cease to accrue and be payable. Such notice shall be given by publication once a week for at least two successive weeks in the Authorized Newspapers, the first such publication to be not less than 30 days nor more than 60 days prior to the redemption date. If so provided in the Series Resolution, the Trustee shall also mail a copy of such notice, postage prepaid, not less than 25 days before nor more than 50 days prior to the redemption date to the registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books. ~~The Trustee shall in the case of redemption pursuant to Section 4.02 hereof give notice required by this Section, regardless of whether it has on deposit sufficient funds to effect such redemption.~~ If, at the time of giving notice of redemption, no Bonds of the Series to be redeemed are outstanding except fully registered Bonds, publication of such notice shall not be required.

[2. The Trustee shall in the case of redemption pursuant to Section 4.02 hereof give notice required by this Section, regardless of whether it has on deposit sufficient funds to effect such redemption. Any notice of optional redemption given pursuant to this Section may state that it is conditional upon receipt by the Trustee of moneys sufficient to pay the Redemption Price of such Bonds or upon the satisfaction of any other condition, or that it may be rescinded upon the occurrence of any other event, and any conditional notice so given may be rescinded at any time before payment of such Redemption Price if any condition so specified is not satisfied or if any such other event occurs. Notice of such rescission shall be given by the Trustee to the registered owners of any Bonds so affected as promptly as practicable upon the failure of such condition or the occurrence of such event.]

4.06 Payment of Redeemed Bonds. Notice having been given by publication in the manner provided in Section 4.05, the Bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated at the Redemption Price, plus interest accrued and unpaid to the redemption date, and, upon presentation and surrender thereof at the office specified in such notice, ~~together with, in the case of coupon Bonds, all appurtenant coupons maturing subsequent to the redemption date,~~ such Bonds, or portions thereof, shall be paid at the Redemption Price, plus interest accrued and unpaid to the redemption date ~~not represented by coupons for matured interest installments. All interest installments represented by coupons which shall have matured on or prior to the redemption date shall continue to be payable to the bearers of such coupons.~~ If there shall be drawn for redemption less than all of a Bond, the District shall execute and the Paying Agent shall deliver, upon the surrender of such Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered, ~~at the option of the owner thereof, either coupon Bonds or~~ registered Bonds of like Series and maturity in any of the authorized denominations. If, on the redemption date, moneys for the redemption of all the Bonds or portions thereof of any like Series and maturity to be redeemed, together with interest to the redemption date, shall be held by the Paying Agents so as to be available therefor on said date and if notice of redemption shall have been published as aforesaid, then, from and after the redemption date interest on the Bonds or portions thereof of such Series and maturity so called for redemption shall cease to accrue and become payable ~~, and the coupons for interest appertaining thereto maturing subsequent to the redemption date shall be void.~~ If said moneys

shall not be so available on the redemption date, such Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

ARTICLE V

ESTABLISHMENT OF FUNDS AND APPLICATION THEREOF

5.01 The Pledge Effected by the Resolution. The Bonds are special obligations of the District payable from and secured by the funds pledged therefor. There are hereby pledged for the payment of the principal and Redemption Price of, and interest on, the Bonds in accordance with their terms and the provisions of the Resolution, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution, (i) the proceeds of sale of the Bonds, (ii) the Revenues and, (iii) all Funds [~~(except the Rate Stabilization Fund)~~] established by the Resolution, including the investments, if any, thereof. ~~{The pledge created hereby, insofar as it relates to the Revenues is hereby expressly declared to be, subject and subordinate in all respects to the pledges and liens created by the Prior Lien Bond Resolutions and subject to the transfers permitted under Section 5.06(2) hereof.}~~

2. Such proceeds of sale of the Bonds, the Revenues (subject to the ~~{pledges and liens created by the Prior Lien Bond Resolutions and subject to the}~~ transfers permitted under Section 5.06~~{(2)}~~ hereof) and the other moneys and securities hereby pledged shall immediately be subject to the lien of this pledge without any physical delivery thereof or further act, and the lien of this pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the District, irrespective of whether such parties have notice thereof.

5.02 Establishment of Funds. The following Funds and Accounts are hereby created and established:

- (1) Salt River Project Electric System Construction Fund, to be held by the District,
- (2) Salt River Project Electric System Revenue Fund, to be held by the District,
- (3) Salt River Project Electric System Debt Service ~~{Fund}~~ [Account], to be held by the Trustee

~~{~~

~~(4) Salt River Project Electric System Debt Service Account, to be held by the Trustee,~~

~~{(5)}~~

[(4)] Salt River Project Electric System Debt Reserve Account, to be held by the Trustee,

[(5) Salt River Project Electric System Rate Stabilization Fund, to be held by the District, and]

- (6) Salt River Project Electric System Redemption Fund, to be held by the Trustee.

5.03 Construction Fund. 1. There shall be paid into the Construction Fund the amounts required to be so paid by the provisions of the Resolution, and there may be paid into the Construction Fund, at the option of the District, any moneys received for or in connection with the Electric System by the District from any other source, unless required to be otherwise applied as provided by the Resolution.

2. The proceeds of insurance maintained pursuant to the Resolution against physical loss of or damage to a Project, or of contractors' performance bonds with respect thereto, pertaining to the period of construction thereof, shall ~~{, unless otherwise required to be applied by the Prior Lien Bond Resolutions,}~~ be paid into the Construction Fund.

3. Unless otherwise provided herein, amounts in the Construction Fund shall be applied to the purpose or purposes specified in the Series Resolution authorizing the Bonds.

4. Notwithstanding any of the other provisions of this Section, to the extent that other moneys are not available therefor, amounts in the Construction Fund shall be applied to the payment of principal of and interest on Bonds when due.

5. Amounts in the Construction Fund shall be invested by the District to the fullest extent practicable in Investment Securities maturing in such amounts and at such times as may be necessary to provide funds when needed to pay the Cost of Construction or such other purpose to which such moneys are applicable. The District may, and to the extent required for payments from the Construction Fund shall, sell any such Investment Securities at any time, and the proceeds of such sale, and of all payments at maturity and upon redemption of such investments, shall be held in the Construction Fund. Interest received on moneys or securities in the Construction Fund shall be deposited in the Construction Fund.

5.04 Revenues and Revenue Fund. The Revenue Fund is hereby created and established and there shall be promptly deposited by the District to the credit of the Revenue Fund all Revenues.

5.05 Payment of Operating Expenses. ~~1.~~ The District ~~[(a)]~~ shall ~~[(a)]~~ out of the moneys in the Revenue Fund, pay, free and clear of any lien or pledge created by the Resolution, all amounts required for reasonable and necessary Operating Expenses, and (b) **[may]** at all times retain in the Revenue Fund amounts deemed by the District to be reasonable and necessary for working capital and reserves for Operating Expenses including expenses which do not recur annually; provided that the total amount of such reserves set aside during any year shall not exceed 20% of the amount of Operating Expenses for such year.

~~2. Notwithstanding the foregoing provisions of this Section, prior to the Retirement Date of Prior Lien Bonds, no moneys in the Revenue Fund shall be applied to the payment of any such Operating Expenses (or reserves therefor) the payment of which shall be provided for pursuant to the Prior Lien Bond Resolutions.~~

5.06 Payments Into Certain Funds. **[1.]** The District shall out of the moneys in the Revenue Fund not retained therein pursuant to Section 5.05, on or before ~~the first working day of each month allocate~~ **[each date for the payment of Debt Service]**, transfer and apply such amount **[to]** ~~as follows and in the following order:~~

~~(1) To~~ the Debt Service Fund (i) for credit to the Debt Service Account, to the extent required so that the balance in said Account shall equal the ~~Accrued~~ Aggregate Debt Service; provided that, for the purposes of computing the amount to be allocated to said Account, there shall be excluded the amount, if any, set aside in said Account which was deposited therein from the **[Rate Stabilization Fund or from the]** proceeds of Bonds less an amount equal to the interest accrued and unpaid and to accrue on Bonds (or any Refunding Bonds issued to refund Bonds) to the last day of the then current calendar month; and (ii) for credit to the Debt Reserve Account, an amount equal to one-twelfth of twenty percent (1/12 of 20%) of the amount necessary to make the total **[amount of]** moneys on deposit ~~in the Debt Reserve Account~~ **[therein]** equal to the Debt Reserve Requirement; provided, however, that no deposits ~~need be made into the~~ **[shall be required if the District shall deposit a]** Debt Reserve Account ~~when the amount on deposit therein shall equal or exceed \$99,277,000.~~ **[Credit Facility in the Debt Reserve Account in satisfaction of the Debt Reserve Requirement.]**

~~[(2) The District shall]~~

[2. The District may] out of the moneys in the Revenue Fund not retained therein pursuant to Section 5.05 ~~and not~~ **[or]** applied pursuant to ~~Section 506(1), on or before the first working day of each month transfer~~ **[paragraph 1 of this Section 5.06, upon a determination by an Authorized Officer of the District at any time prior to the next Debt Service payment date that sufficient funds are or will be available in the Debt Service Account to pay Debt Service on the next Debt Service payment date and that sufficient moneys, securities or a Debt Reserve Account Credit Facility equal to the Debt Reserve Requirement are or will be on deposit in the Debt Reserve Account to satisfy the Debt Reserve Requirement, transfer such amount as follows and in the following order:**

(1) To the Rate Stabilization Fund, an amount deemed necessary by the District which may be used by the District for any lawful purpose; and

(2) To the General Fund, any] such remaining balance in the Revenue Fund ~~to the General Fund of the District~~. Any amount so transferred to the General Fund of the District may be used by the District for any lawful purpose.

Provided, however, that so long as there shall be held in the Debt Service Fund an amount sufficient to fully pay all Outstanding Bonds in accordance with their terms (including principal or applicable sinking fund Redemption Price and interest thereon), no deposits shall be required to be made into the Debt Service Fund.

5.07 Debt Service Fund ~~+~~ ~~[.]~~ *Debt Service Account.* 1. The Trustee shall pay out of the Debt Service Account to the respective Paying Agents (i) on or before each interest payment date for any of the Bonds, the amount required for the interest payable on such date; (ii) on or before each Principal Installment due date, the amount required for the Principal Installment payable on such due date; and (iii) on or before the day preceding any redemption date for the Bonds, the amount required for the payment of interest on the Bonds then to be redeemed. Such amounts shall be applied by the Paying Agents on and after the due dates thereof. The Trustee shall also pay out of the Debt Service Account the accrued interest included in the purchase price of the Bonds purchased for retirement.

2. Amounts accumulated in the Debt Service Account with respect to any Sinking Fund Installment (together with amounts accumulated therein with respect to interest on the Bonds for which such Sinking Fund Installment was established) may and, if so directed by the District, shall be applied by the Trustee, on or prior to the 60th day preceding the due date of such Sinking Fund Installment, to (i) the purchase of Bonds of the Series ~~and maturity~~ for which such Sinking Fund Installment was established, or (ii) the redemption at the applicable sinking fund Redemption Prices pursuant to Article IV, of such Bonds, if then redeemable by their terms. After the 60th day but on or prior to the 40th day preceding the due date of such Sinking Fund Installment, any amounts then on deposit in the Debt Service Account (exclusive of amounts, if any, set aside in said Account which were deposited therein from the proceeds of additional Bonds) may and, if so directed by the District, shall be applied by the Trustee to the purchase of Bonds of the Series ~~and maturity~~ for which such Sinking Fund Installment was established in an amount not exceeding that necessary to complete the retirement of the unsatisfied balance of such Sinking Fund Installment. All purchases of any Bonds pursuant to this subsection 2 shall be made at prices not exceeding the applicable sinking fund Redemption Price of such Bonds plus accrued interest, and such purchases shall be made in such manner as the Trustee shall determine. The applicable sinking fund Redemption Price (or principal amount of maturing Bonds) of any Bonds so purchased or redeemed shall be deemed to constitute part of the Debt Service Account until such Sinking Fund Installment date, for the purpose of calculating the amount of such Account. As soon as practicable after the 40th day preceding the due date of any such Sinking Fund Installment, the Trustee shall proceed to call for redemption, by giving notice as provided in Section ~~405~~ **[4.05]**, on such due date Bonds of the Series ~~and maturity~~ for which such Sinking Fund Installment was established (except in the case of Bonds maturing on a Sinking Fund Installment date) in such amount as shall be necessary to complete the retirement of the unsatisfied balance of such Sinking Fund Installment. The Trustee shall pay out of the Debt Service Account to the appropriate Paying Agents, on or before the day preceding such redemption date (or maturity date), the amount required for the redemption of the Bonds so called for redemption (or for the payment of such Bonds then maturing), and such amount shall be applied by such Paying Agents to such redemption (or payment). All expenses in connection with the purchase or redemption of Bonds shall be paid by the District from the Revenue Fund as an Operating Expense.

3. The amount, if any, deposited in the Debt Service Account from the proceeds of each Series of ~~bonds~~ **[Bonds]** shall be set aside in such Account and applied to the payment of interest on the Bonds of such Series (or Refunding Bonds issued to refund such Bonds) as the same becomes due and payable.

~~**5.08 Debt Service Fund**~~ ~~+~~

Debt Reserve Account. 1. If on the first working day of any month the amount **[on deposit]** in the Debt ~~Service~~ **[Reserve]** Account shall be less than the ~~amount required to be in such Account pursuant to paragraph (1) of Section 5.06~~ **[Debt Reserve Requirement]**, the Trustee shall apply amounts from the Debt ~~Reserve Account~~ **[Service Fund]** to the extent necessary to make good the deficiency. **[In the event that there is on deposit in the Debt Reserve Account moneys and a Debt Reserve Account Credit Facility, the Trustee shall withdraw moneys prior to making a draw or claim, as the case may be, on a Debt Reserve Account Credit Facility.]**

2. Whenever the amount] ~~{2. Whenever the moneys}~~ on deposit in the Debt Reserve Account shall exceed the Debt Reserve Requirement, such excess shall be allocated and applied by the District in the same manner as Revenues pursuant to Section 5.06.

3. Whenever the amount in the Debt Reserve Account, together with the amount in the Debt Service Account, is sufficient to fully pay all Outstanding Bonds in accordance with their terms (including principal or applicable sinking fund Redemption Price and interest thereon), the funds on deposit in the Debt Reserve Account shall be transferred to the Debt Service Account.

[4. The District may cause to be delivered to the Trustee for deposit into the Debt Service Account, and the Trustee shall upon its receipt so deposit, a Debt Reserve Account Credit Facility for the benefit of the Bondholders, which Debt Reserve Account Credit Facility shall be payable or available to be drawn upon, as the case may be (upon the giving of notice as required thereunder), on any date on which a deficiency in the Debt Service Fund exists which cannot be cured by moneys in any other fund or account held hereunder and available for such purpose; provided, however, (i) if a disbursement is made under the Debt Reserve Account Credit Facility, the District shall either reinstate the maximum limits of such Debt Reserve Account Credit Facility within twelve (12) months following such disbursement equal to the Debt Reserve Requirement or deposit into the Debt Reserve Account moneys in the amount of the disbursement made under such Debt Reserve Account Credit Facility, or a combination of such alternatives as shall equal the Debt Reserve Requirement; (ii) if any such Debt Reserve Account Credit Facility for deposit in the Debt Service Reserve Fund is obtained and if six (6) months prior to the expiration thereof, the Debt Reserve Account is less than the Debt Reserve Requirement, the District shall cause the reinstatement of the maximum limits of such existing Debt Reserve Account Credit Facility, or shall obtain a substitute to the extent necessary to fund the Debt Reserve Account at the Debt Reserve Requirement; and (v) if a nationally recognized rating agency shall downgrade the rating of the Bonds, if any, as a result of such deposit of any such Debt Reserve Account Credit Facility or the rating of the provider thereof drops below the highest rating category for a nationally recognized rating agency, then the District shall deliver to the Trustee for deposit in the Debt Reserve Account a replacement of such Debt Reserve Account Credit Facility, in like amount and form acceptable to the Trustee and such that the nationally recognized rating agency will not reduce or withdraw their ratings, if any, on the Bonds, or deposit moneys in an amount sufficient to fund the Debt Reserve Account in an amount equal to the Debt Reserve Requirement within twelve (12) months following such downgrade.

5.08 Rate Stabilization Fund. 1. There may be deposited in the Rate Stabilization Fund any amounts deemed necessary by the District to be used for any lawful purpose of the District, including but not limited to making any deposits required by the Resolution to any Fund, as determined by the District; provided, however, that no such deposit to any such Fund shall be required; provided further, however, that if at any time the amounts in the Operating Fund or Debt Service Fund shall be less than the current requirements thereof, the District shall withdraw from the Rate Stabilization Fund and deposit in such other Funds the amount necessary (or all the moneys in the Rate Stabilization Fund, if less than the amounts necessary, applying available amounts in the order of priority and otherwise as specified in Section 5.06) to make up such deficiency. Amounts on deposit in the Rate Stabilization Fund may be invested by the District to the fullest extent practicable in Investment Securities. The District may sell any such Investment Securities at any time, and the proceeds of such sale, and of all payments at maturity and upon redemption of such investments, shall be held in the Rate Stabilization Fund. Interest received on moneys or securities in the Rate Stabilization Fund shall be deposited in the Rate Stabilization Fund. Amounts in the Rate Stabilization Fund which the District may determine to be in excess of the amount required to be maintained therein shall be transferred to the Revenue Fund. Amounts on deposit in the Rate Stabilization Fund are not subject to the lien or pledge created by the Resolution.]

5.09 Subordinated Indebtedness. The District may, at any time, or from time to time, issue evidences of indebtedness payable out of Revenues and which may be secured by a pledge of Revenues provided, however, that such pledge shall be and shall be expressed to be, subordinate in all respects to the pledge of the Revenues, moneys, securities and funds created by the Resolution.

Except as otherwise provided in the Resolution, the Trustee shall sell at the best price obtainable, or present for redemption, any obligation so purchased as an investment whenever it shall be requested in writing by an Authorized Officer of the District so to do or whenever it shall be necessary in order to provide moneys to meet any payment or transfer from any Fund held by it. The Trustee shall not be liable or responsible for making any such investment in the manner provided above or for any loss resulting from any such investment.

ARTICLE VII

PARTICULAR COVENANTS OF THE DISTRICT

The District covenants and agrees with the Trustee and the Bondholders as follows:

7.01 Payment of Bonds. The District shall duly and punctually pay or cause to be paid, but solely from the Revenues and the proceeds of the Bonds pledged therefor by the Resolution, the principal or Redemption Price, if any, of every Bond and the interest thereon, at the dates and places and in the manner mentioned in the Bonds ~~and in the coupons thereto appertaining~~, according to the true intent and meaning thereof.

7.02 Extension of Payment of Bonds ~~and Coupons~~. The District shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or ~~the time of payment of any of the coupons or~~ claims for interest by the purchase or funding of such Bonds, claims for interest or by any other arrangement and in case the maturity of any of the Bonds or ~~the time for payment of any such coupons or~~ claims for interest shall be extended, such Bonds ~~, coupons~~ or claims for interest shall not be entitled, in case of any default under the Resolution, to the benefit of the Resolution or to any payment out of Revenues of Funds established by the Resolution, including the investments, if any, thereof, pledged under the Resolution or the moneys (except moneys held in trust for the payment of particular Bonds ~~, coupons~~ or claims for interest pursuant to the Resolution) held by the Fiduciaries, except subject to the prior payment of the principal of all Bonds Outstanding the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extended ~~coupon or~~ claims for interest. Nothing herein shall be deemed to limit the right of the District to issue Refunding Bonds and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

7.03 Offices for Servicing Bonds. Unless otherwise provided by a Series Resolution with respect to Bonds of such Series, the District shall maintain one or more agencies ~~in each of the cities of New York, New York, Chicago, Illinois, and Phoenix, Arizona,~~ **[as the District may so designate from time to time]** where Bonds ~~and coupons~~ may be presented for payment and shall maintain one or more agencies in the City of New York, New York where Bonds may be presented for registration, transfer or exchange, and where notices, demands and other documents may be served upon the District in respect to the Bonds ~~and coupons~~ or to the Resolution. The District hereby appoints the Trustee as its agent to maintain such agency for the registration, transfer or exchange of Bonds, and for the service upon the District of such notices, demands and other documents and the Trustee shall continuously maintain or make arrangements for an office in the City of New York to perform such agency. The District ~~hereby appoints the~~ **[may by Series Resolution appoint]** Paying Agents ~~in such Cities~~ as its ~~respective~~ agents to maintain such agencies for the payment or redemption of Bonds ~~and coupons~~ **[of such Series]**.

7.04 Further Assurance. At any and all times the District shall, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, pledging, assigning and confirming all and singular the rights, Revenues and other moneys, securities and funds hereby pledged or assigned, or intended so to be, or which the District may become bound to pledge or assign.

7.05 Power to Issue Bonds and Pledge Revenues and Other Funds. The District is duly authorized under all applicable laws to create and issue the Bonds and to adopt the Resolution and to pledge the Revenues and other moneys, securities and funds purported to be pledged by the Resolution in the manner and to the extent provided in the Resolution. Except to the extent otherwise provided in Section 5.01, the Revenues and other moneys, securities and funds so pledged are and will be free and clear of any pledge, lien,

charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by the Resolution, and all corporate or other action on the part of the District to that end has been and will be duly and validly taken. The Bonds and the provisions of the Resolution are and will be the valid and legally enforceable obligations of the District in accordance with their terms and the terms of the Resolution. The District shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues and other moneys, securities and funds pledged under the Resolution and all the rights of the Bondholders under the Resolution against all claims and demands of all persons whomsoever.

7.06 Power to Operate Electric System and Collect Rates and Fees. The District has ~~+, and will have so long as any Bonds are Outstanding, +~~ good right and lawful power to construct, reconstruct, improve, maintain, operate and repair the Electric System, and to fix and collect rates, fees, rents and other charges in connection therewith.

7.07 Creation of Liens; Sale and Lease of Property. 1. The District shall not hereafter issue any bonds or other evidences of indebtedness ~~+, including any bonds issued pursuant to the Prior Lien Bond Resolutions, +~~ payable out of or secured by a pledge of any revenues or income of the Electric System, except as in this Resolution provided.

2. The District shall not issue any bonds or other evidences of indebtedness other than the Bonds, payable out of or secured by a pledge of any revenues or income of the Electric System or of the moneys, securities or funds held or set aside by the District or by the Fiduciaries under the Resolution and shall not create or cause to be created any lien or charge on any revenues or income of the Electric System, or such moneys, securities or funds; provided, however, that nothing contained in the Resolution shall prevent the District from issuing Subordinated Indebtedness as provided in Section 5.09 ~~+, or Prior Lien Bonds in lieu of or in substitution for other Prior Lien Bonds in connection with servicing the Prior Lien Bonds or Prior Lien Bonds in connection with the refunding of Prior Lien Bonds, +~~ and provided further that the District may, for its authorized purposes, make or assume loans with the United States of America, which loans may be secured by lien on revenues and income of the Electric System prior to the lien of the Bonds issued hereunder.

3. ~~{Except as provided in subsections 4 and 5 of this Section, no}~~ **[The District may sell or exchange at any time and from time to time any property constituting]** part of the Electric System ~~{shall be sold, mortgaged, leased or otherwise disposed of or encumbered.~~

4. ~~The District may sell or exchange at any time}~~ and ~~{from time to time any property constituting part of the Electric System and not necessary, in its opinion, in the operation thereof, and any proceeds of any such sale or exchange not applied in accordance with the Prior Lien Bond Resolutions shall be deposited, at the discretion of the District, in either the Construction Fund for the purpose of providing any real or personal property, or assets for the Electric System or in the Redemption Fund for application to the purchase or redemption of Bonds.~~

5. ~~The District}~~ may lease or make contracts or grant licenses for the operation of, or grant easements or other rights with respect to, any part of the Electric System if ~~{such lease, contract, license, easement or right}~~ **[(i) in the sole judgment of the District it is advisable to take such action, (ii) such action shall not impair the ability of the District to make Debt Service payments, and (iii) such action]** does not materially impede or unduly restrict the operation by the District of the Electric System. ~~{Any payments received by the District under or in connection with any such lease, contract, license, easement or right of way in respect of the Electric System or any part thereof on and after the Retirement Date of the Prior Lien Bonds shall constitute Revenues.}~~ **[Except as provided in Section 7.10, any proceeds of any such sale, exchange, lease, contract or license shall at the discretion of the District be deposited in the Redemption Fund for application to the purchase or redemption of Bonds or be applied for any lawful purpose.]**

~~{7.08 Consulting Engineers. The District shall, until the Bonds and the interest thereon shall have been paid or provisions for such payment shall have been made, for the purpose of performing and carrying out the duties imposed on the Consulting Engineers by the Resolution, employ an independent engineer or engineering firm or corporation having a favorable reputation for skill and experience in such work.}~~

[7.08 Reserved.]

~~{7.09 Annual Budget. Not less than 30 days prior to the beginning of each Fiscal Year, the District shall prepare an Annual Budget for the ensuing Fiscal Year. Each such Annual Budget shall include estimates for Operating Expenses for such year. Such Annual Budget may set forth such additional material as the District may determine. The District may at any time adopt an amended Annual Budget for the remainder of the then current Fiscal Year.}~~

[7.09 Reserved.]

7.10 Operation and Maintenance of Electric System. The District shall at all times operate or cause to be operated the Electric System properly and in an efficient and economical manner, consistent with good business and utility operating practices, and shall maintain, preserve, reconstruct and keep the same or cause the same to be so maintained, preserved, reconstructed and kept, with the appurtenances and every part and parcel thereof, in good repair, working order and condition, and shall from time to time make, or cause to be made, all necessary and proper repairs, replacements and renewals so that at all times the operation of the Electric System may be properly and advantageously conducted[; **provided, however, that nothing contained herein shall prevent the District from exercising its powers under Section 7.07 (3); provided further, however, that any sale-leaseback or lease-leaseback of any part of the Electric System or other similar contractual arrangements, the effect of which is that the District continues to retain the Revenues therefrom, shall not constitute a lease or disposition of such part of the Electric System for purposes of paragraph 3 of Section 7.07 and any proceeds therefrom shall be treated as Revenues.**

7.11 Rates and Fees. 1. The District shall charge and collect rates, fees and other charges for the sale of electric power and energy and other services, facilities and commodities of the Electric System as shall be required to provide revenues and income (including investment income) at least sufficient in each Fiscal Year for the payment of the sum of:

(a) Operating Expenses during such Fiscal Year, including reserves, if any, therefor provided for in the Annual Budget for such year;

(b) An amount equal to the Aggregate Debt Service for such Fiscal Year;

(c) The amount, if any, to be paid during such Fiscal Year into the Debt Reserve Account in the Debt Service Fund; **[and]** ~~{(d) An amount equal to the Prior Lien Debt Service for such Fiscal Year;}~~

~~{(f)}~~ **[(d)]** All other charges or liens whatsoever payable out of revenues and income during such Fiscal Year and, to the extent not otherwise provided for, all amounts payable on Subordinated Indebtedness.

~~{The collection of revenues and income (including investment income) in any Fiscal Year in an amount in excess of the aggregate payments specified in this subsection 1 for such Fiscal Year shall not be taken into account as a credit against such aggregate payments for any subsequent Fiscal Year or years.~~

~~{2. On or before April 1 in each year the District shall complete a review of its financial condition for the purpose of estimating whether the revenues and income (including investment income) from the operation of the Electric System will be sufficient to provide all of the payments and meet all other requirements as specified in subsection 1 of this Section and shall by resolution make a determination with respect thereto. If the District determines that such revenues and income may not be sufficient to provide such payments and meet such other requirements, it shall forthwith make a study for the purpose of making a schedule of rates, fees and charges for the Electric System which will cause sufficient revenues and income to be collected in the following Fiscal Year to provide funds for all the payments and other requirements as specified in subsection 1 of this Section for such following year and will cause additional revenues and income to be collected in such following and later Fiscal Year sufficient to restore the amount of such deficiency at the earliest practicable time.}~~

[2.] If, in any Fiscal Year, the revenues and income collected shall not have been sufficient to provide all of the payments and meet all other requirements as specified in said subsection 1, the District shall as promptly as permitted by law establish and place in effect a schedule of rates, fees and charges which will cause sufficient revenues and income to be collected. **[For purposes of this Section 7.11, at any time, revenues**

and income collected shall include any amounts withdrawn or expected to be withdrawn thereafter in any Fiscal Year from the Rate Stabilization Fund which were on deposit therein prior to such Fiscal Year.]

3. The District will not furnish or supply power or energy free of charge to any person, firm or corporation, public or private, and the District ~~will~~ [shall] promptly enforce the payment of any and all accounts owing to the District by reason of the ownership and operation of the Electric System, to the extent dictated by sound business practice.

4. The failure in any Fiscal Year to comply with the covenant in subsection 1 of this Section shall not constitute an Event of Default under the Resolution, if the District shall comply with subsection 2 of this Section.

7.12 Maintenance of Insurance. The District shall provide protection for the Electric System in accordance with sound electric utility practice which may consist of insurance, self insurance and indemnities. Any insurance shall be in the form of policies or contracts for insurance with insurers of good standing, shall be payable to the District as its interest may appear, and may provide for such deductibles, exclusions, limitations, restrictions and restrictive endorsements customary in policies for similar coverage issued to entities operating properties similar to the properties of the Electric System. Any self insurance shall be in the amounts, manner and of the types provided by entities operating properties similar to the properties of the Electric System.

7.13 Reconstruction; Application of Insurance Proceeds. 1. If any useful portion of the Electric System shall be damaged or destroyed, the District shall, as expeditiously as possible, continuously and diligently prosecute the reconstruction or replacement thereof, unless the District determines that such reconstruction and replacement is not in the interest of the District and the Bondholders. The proceeds of any insurance shall be ~~applied in accordance with any applicable provisions of the Prior Lien Bond Resolutions and thereafter shall be~~ paid on account of such damage or destruction, other than business interruption loss insurance, shall be held by the District in the Construction Fund and made available for, and to the extent necessary be applied to, the cost of such reconstruction or replacement, or shall be applied to the construction or acquisition of any properties or assets of the Electric System. Pending such application, such proceeds may be invested by the District in Investment Securities which mature not later than such times as shall be necessary to provide moneys when needed to pay such cost of reconstruction or replacement or acquisition. Interest earned on such investments shall be deposited in the Construction Fund. The proceeds of any such insurance not applied by the District to constructing or replacing damaged or destroyed property or in acquiring property or assets of the Electric System shall be paid to the Trustee for deposit in the Redemption Fund.

2. The proceeds of business interruption loss insurance, if any, shall be paid into the Revenue Fund.

7.14 Accounts and Reports. The District shall keep, in accordance with Accounting Practice, proper books of record and account of its transactions relating to the Electric System~~,,~~ [and] the Funds and ~~accounts~~ [Accounts] established by the Resolution ~~and the Funds, accounts and reserves under the Prior Lien Bond Resolutions,~~ together with all contracts for the sale of power and energy and all other books and papers of the District, including insurance policies, relating to the Electric System and such Funds and accounts.

2. The Trustee shall advise the District promptly after the end of each month of its transactions during such month relating to the Funds and accounts held by it under the Resolution.

3. The District shall annually, within 180 days after the close of each Fiscal Year ~~(the first such report to be filed with respect to the year 1973),~~ file with the Trustee, and otherwise as provided by law, a copy of the annual report of the District and its agent, the Association, for such year, accompanied by an Accountant's Report. In addition, the District will file with the Trustee a statement, or statements, accompanied by an Accountant's Report of each Fund and account established under the Resolution ~~and the electric revenue fund, bond fund and debt service reserve fund established under the Prior Lien Bond Resolutions,~~ summarizing the receipts therein and disbursements therefrom during such year and the amounts held therein at the end of each Fiscal Year. Such Accountant's Report on the statement summarizing the transactions in

the Funds established under the Resolution shall state whether or not, to the knowledge of the signer, the District is in default with respect to any of the covenants, agreements or conditions as set forth in Section 8.01 of the Resolution, insofar as they pertain to accounting matters, and if so, the nature of such default.

4. The reports, statements and other documents required to be furnished to the Trustee pursuant to this Section 7.14 ~~{of the Resolution}~~ shall be available for the inspection of the Bondholders at the office of the Trustee and shall be mailed to each Bondholder who shall file a written request therefor with the District.

7.15 Payment of Taxes and Charges. The District ~~{will}~~ **[shall]** from time to time duly pay and discharge, or cause to be paid and discharged all taxes, assessments and other governmental charges, or required payments in lieu thereof, lawfully imposed upon the properties of the District or upon the rights, revenues, income, receipts, and other moneys, securities and funds of the District when the same shall become due (including all rights, moneys and other property transferred, assigned or pledged under the Resolution), and all lawful claims for labor and material and supplies, except those taxes, assessments, charges or claims which the District shall in good faith contest by proper legal proceedings if the District shall in all such cases have set aside on its books reserves deemed adequate with respect thereto.

7.16 ~~Transfer of Funds.~~ ~~The District hereby orders the Treasurer of the District to order and the Treasurer shall so order, on the last day of every month that Bonds are Outstanding, the transfer of moneys remaining in the "Electric Revenue Fund" established, created and maintained pursuant to the Prior Lien Bond Resolutions in excess of the amount required to be retained in said "Electric Revenue Fund" to the General Fund of the District for immediate deposit in the Revenue Fund.~~ **[Reserved.]**

7.17 Transfer From General Fund. In the event there is a deficiency in the ~~"Bond Fund" established by the Prior Lien Bond Resolutions or in the~~ Debt Service Account established herein and if such a deficiency is not paid from other sources the District hereby covenants to transfer money in the General Fund to said ~~"Bond Fund" or said~~ Debt Service Account ~~{or both in amounts}~~ **[an amount]** sufficient to make up such deficiency ~~{or deficiencies}~~ **[.]**

~~**7.18 Covenant By the District With Respect to the Prior Lien Bond Resolutions.** The District shall not make any payments from the "Electric Revenue Fund" established under the Prior Lien Bond Resolutions, other than payments to the General Fund for deposit in the Revenue Fund, except for those payments and deposits required to be made pursuant to the Prior Lien Bond Resolutions.~~

[7.18 Reserved.]

ARTICLE VIII

REMEDIES OF BONDHOLDERS

8.01 Events of Default. If one or more of the following events (in the Resolution called "Events of Default") shall happen, that is to say:

(i) if default shall be made in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity or by call for redemption, or otherwise,

(ii) if default shall be made in the due and punctual payment of any installment of interest on any Bond or the unsatisfied balance of any Sinking Fund Installment therefor (except when such Installment is due on the maturity date of such Bond), when and as such interest installment or Sinking Fund Installment shall become due and payable, and such default shall continue for a period of 30 days,

(iii) if default shall be made by the District in the performance or observance of the covenants, agreements and conditions on its part as provided in Section 7.11,

(iv) if default shall be made by the District in the performance or observance of any other of the covenants, agreements or conditions on its part in the Resolution or in the Bonds contained, and such default shall continue for a period of 60 days after written notice thereof to the District by the Trustee or

to the District and to the Trustee by the Holders of not less than ~~{10%}~~ [a majority] in principal amount of the Bonds Outstanding, ~~{or}~~ [provided that if such default shall be such that it cannot be corrected within such sixty day period, it shall not constitute an Event of Default if corrective action is instituted within such period and diligently pursued until the failure is corrected, or]

~~{(v) if the District shall file a petition seeking a composition of indebtedness}~~

[(v) if (1) a decree or order for relief is entered by a court having jurisdiction of the District adjudging the District a bankrupt or insolvent or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition in respect of the District in any involuntary case] under the Federal bankruptcy laws, or under any other applicable law or statute of the United States of America or of the State of Arizona; (2) a receiver, liquidator, assignee, custodian, trustee, sequester or other similar official of the District or of any substantial portion of its property is appointed; or (3) the winding up or liquidation of its affairs is ordered and the continuance of any such decree or order unstayed and in effect for a period of sixty (60) consecutive days,]

then, and in each and every such case, so long as such Event of Default shall not have been remedied, unless the principal of all the Bonds shall have already become due and payable, either the Trustee (by notice in writing to the District), or the Holders of not less than 25% in principal amount of the Bonds Outstanding (by notice in writing to the District and the Trustee), may declare the principal of all the Bonds then Outstanding and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and be immediately due and payable, anything in the Resolution or in any of the Bonds contained to the contrary notwithstanding. The right of the Trustee or of the Holders of not less than 25% in principal amount of the Bonds to make any such declaration as aforesaid, however, is subject to the condition that if, at any time after such declaration, but before the Bonds shall have matured by their terms, all overdue installments of interest upon the Bonds, together with interest on such overdue installments of interest to the extent permitted by law, and the reasonable and proper charges, expenses and liabilities of the Trustee, and all other sums then payable by the District under the Resolution (except the principal of, and interest accrued since the next preceding interest date on, the Bonds due and payable solely by virtue of such declaration) shall either be paid by or for the account of the District or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the Bonds or under the Resolution (other than the payment of principal and interest due and payable solely by reason of such declaration) shall be made good or be secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, then and in every such case the Holders of a majority in principal amount of the Bonds Outstanding, by written notice to the District and to the Trustee, may rescind such declaration and annul such default in its entirety, or, if the Trustee shall have acted itself, and if there shall not have been theretofore delivered to the Trustee written direction to the contrary by the Holders of a majority in principal amount of the Bonds then Outstanding, then any such declaration shall ipso facto be deemed to be rescinded and any such default and its consequences shall ipso facto be deemed to be annulled, but no such rescission and annulment shall extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

8.02 Accounting and Examination of Records After Default. 1. The District covenants that if an Event of Default shall have happened and shall not have been remedied, the books of record and account of the District and all other records relating to the Electric System shall at all times be subject to the inspection and use of the Trustee and of its agents and attorneys, including the engineer or firm of engineers appointed pursuant to Section [8.03].

2. The District covenants that if an Event of Default shall happen and shall not have been remedied, the District, upon demand of the Trustee, will account, as if it were the trustee of an express trust, for all Revenues and other moneys, securities and funds pledged or held under the Resolution for such period as shall be stated in such demand.

8.03 Application of Revenues and other Moneys After Default. 1. The District covenants that if an Event of Default shall happen and shall not have been remedied, the District, upon demand of the Trustee, shall pay over to the Trustee (i) forthwith, all moneys, securities and funds then held by the District in any Fund or Account under the Resolution, and (ii) all Revenues as promptly as practicable after receipt thereof.

2. During the continuance of an Event of Default, the Trustee shall apply such moneys, securities, funds and Revenues and the income therefrom as follows and in the following order:

(i) to the payment of the amounts required for reasonable and necessary Operating Expenses, and for reasonable renewals, repairs and replacements of the Electric System necessary to prevent loss of Revenues, as certified to the Trustee by an independent engineer or firm of engineers of recognized standing (who may be an engineer or firm of engineers retained by the District for other purposes) selected by the Trustee; ~~provided that, prior to the Retirement Date of the Prior Lien Bonds, such payments shall be made only to the extent not made or provided for under the Prior Lien Bond Resolutions~~. For this purpose the books of record and accounts of the District relating to the Electric System shall at all times be subject to the inspection of such engineer or firm of engineers during the continuance of such Event of Default;

(ii) to the payment of the reasonable and proper charges, expenses and liabilities of the Trustee and of any engineer or firm of engineers selected by the Trustee pursuant to this Article;

(iii) to the payment of the interest and principal or Redemption Price then due on the Bonds, subject to the provisions of Section 7.02, as follows:

(a) unless the principal of all of the Bonds shall have become or have been declared due and payable,

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and if the amount available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

(b) if the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bonds over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference.

3. If and whenever all overdue installments of interest on all Bonds, together with the reasonable and proper charges, expenses and liabilities of the Trustee, and all other sums payable by the District under the Resolution, including the principal and Redemption Price of and accrued unpaid interest on all ~~bonds~~ **[Bonds]** which shall then be payable by declaration or otherwise, shall either be paid by or for the account of the District, or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the Resolution or the Bonds shall be made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, the Trustee shall pay over to the District all moneys, securities, funds and Revenues then remaining unexpended in the hands of the Trustee (except moneys, securities, funds or Revenues deposited or pledged, or required by the terms of the Resolution to be deposited or pledged, with the Trustee), and thereupon the District and the Trustee shall be restored, respectively, to their former positions and rights under the Resolution, and all Revenues shall thereafter be applied as provided in Article V. No such payment over to the District by the Trustee or resumption of the application of Revenues as provided in Article V shall extend to or affect any subsequent default under the Resolution or impair any right consequent thereon.

8.04 Proceedings Brought by Trustee. 1. If an Event of Default shall happen and shall not have been remedied, then and in every such case, the Trustee, by its agents and attorneys, may proceed, and upon written request of the Holders of not less than ~~{25%}~~ **[[a majority]]** in principal amount of the Bonds Outstanding shall proceed, to protect and enforce its right and the rights of the Holders of the Bonds under the Resolution forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant herein contained, or in aid of the execution of any power herein granted, or for an accounting against the District as if the District were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the Trustee, being advised by counsel, shall deem most effectual to enforce any of its rights or to perform any of its duties under the Resolution.

2. All rights of action under the Resolution may be enforced by the Trustee without the possession of any of the Bonds ~~{coupons or}~~ or the production thereof on the trial or other proceedings, and any such suit or proceedings instituted by the Trustee shall be brought in its name.

3. The Holders of not less than a majority in principal amount of the Bonds at the time Outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, provided that the Trustee shall have the right to decline to follow any such direction if the Trustee shall be advised by counsel that the action or proceeding so directed may not lawfully be taken, or if the Trustee in good faith shall determine that the action or proceeding so directed would involve the Trustee in personal liability or be unjustly prejudicial to the Bondholders not parties to such direction.

4. Upon commencing a suit in equity or upon other commencement of judicial proceedings by the Trustee to enforce any right under the Resolution, the Trustee shall be entitled to exercise any and all rights and powers conferred in the Resolution and provided to be exercised by the Trustee upon the occurrence of an Event of Default.

5. Regardless of the happening of an Event of Default, the Trustee shall have power to, but unless requested in writing by the Holders of a majority in principal amount of the Bonds then Outstanding, and furnished with reasonable security and indemnity, shall be under no obligation to, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient to prevent any impairment of the security under the Resolution by any acts which may be unlawful or in violation of the Resolution, and such suits and proceedings as the Trustee may be advised shall be necessary or expedient to preserve or protect its interest and the interest of the Bondholders.

8.05 Restriction on Bondholder's Action. 1. No Holder of any Bond ~~{or coupon}~~ shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of the Resolution or the execution of any trust under the Resolution or for any remedy under the Resolution, unless such Holder shall have previously given to the Trustee written notice of the happening of an Event of Default, as provided in this Article, and the Holders of ~~{at least 25%}~~ **[not less than a majority]** in principal amount of the Bonds then Outstanding shall have filed a written request with the Trustee, and shall have offered it reasonable opportunity, either to exercise the powers granted in the Resolution or by the Act or by the laws of Arizona or to institute such action, suit or proceeding in its own name, and unless such Holders shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused to comply with such request for a period of 60 days after receipt by it of such notice, request and offer of indemnity, it being understood and intended that no one or more Holders of Bonds ~~{or coupons}~~ shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the pledge created by the Resolution, or to enforce any right under the Resolution, except in the manner therein provided; and that all proceedings at law or in equity to enforce any provision of the Resolution shall be instituted, had and maintained in the manner provided in the Resolution and for the equal benefit of all Holders of the Outstanding Bonds ~~{and coupons}~~, subject only to the provisions of Section 7.02.

2. Nothing in the Resolution or in the Bonds ~~{or in the coupons}~~ contained shall affect or impair the obligation of the District, which is absolute and unconditional, to pay at the respective dates of maturity and places therein expressed the principal of and interest on the Bonds to the respective Holders thereof, or affect

or impair the right of action, which is also absolute and unconditional, of any Holder to enforce such payment of his Bond.

8.06 Remedies Not Exclusive. No remedy by the terms of the Resolution conferred upon or reserved to the Trustee or the Bondholders is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Resolution or existing at law or equity or by statute on or after the date of adoption of this Resolution.

8.07 Effect of Waiver and Other Circumstances. 1. No delay or omission of the Trustee or of any Bondholder to exercise any right or power arising upon the happening of an Event of Default shall impair any right or power or shall be construed to be a waiver of any such default or be an acquiescence therein; and every power and remedy given by this Article to the Trustee or to the Bondholders may be exercised from time to time and as often as may be deemed expedient by the Trustee or by the Bondholders.

2. Prior to the declaration of maturity of the Bonds as provided in Section 8.01, the Holders of not less than ~~{66 2/3%}~~ [25%] in principal amount of the Bonds at the time Outstanding, or their attorneys-in-fact duly authorized, may, on behalf of the Holders of all of the Bonds waive any past default under the Resolution and its consequences, except a default in the payment of interest on or principal of or premium (if any) on any of the Bonds. No such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

8.08 Notice of Default. The Trustee shall promptly mail to registered Holders of Bonds, and to all Bondholders who shall have filed their names and addresses with the Trustee for such purpose written notice of the occurrence of any Event of Default. If for any Fiscal Year the Revenues shall be insufficient to comply with the provisions of subsection 1 of Section 7.11, the Trustee, on or before the 30th day after receipt of the annual audit, shall mail to such registered Holders and such Bondholders written notice of such failure.

ARTICLE IX

CONCERNING THE FIDUCIARIES

9.01 Trustee; Appointment and Acceptance of Duties. The Trustee shall be appointed by resolution of the District prior to the issuance of any Bonds authorized hereunder. The Trustee shall signify its acceptance of the duties and obligations imposed upon it by the Resolution by written acceptance filed with the District prior to the issuance of any Bonds authorized hereunder and by filing such written acceptance the Trustee shall be deemed to have accepted such duties and obligations with respect to all the Bonds to be issued, but only, however, upon the terms and conditions set forth in the Resolution.

9.02 Paying Agents; Appointment and Acceptance of Duties. 1. The District shall appoint one or more Paying Agents for the Bonds of each Series, and may at any time or from time to time appoint one or more other Paying Agents having the qualifications set forth in Section 9.12 for a successor Paying Agent. The Trustee may be appointed a Paying Agent.

2. Each Paying Agent shall signify its acceptance of the duties and obligations imposed upon it by the Resolution by executing and delivering to the District and to the Trustee a written acceptance thereof.

3. Unless otherwise provided, the principal offices of the Paying Agents are designated as the offices or agencies of the District for the payment of the interest on and principal or Redemption of the Bonds.

9.03 Responsibilities of Fiduciaries. 1. The recitals of fact herein and in the Bonds contained shall be taken as the statements of the District and no Fiduciary assumes any responsibility for the correctness of the same. No Fiduciary makes any representations as to the validity or sufficiency of the Resolution or of any Bonds ~~for coupons~~ issued thereunder or as to the security afforded by the Resolution, and no Fiduciary shall incur any liability in respect thereof. No Fiduciary shall be under any responsibility or duty with respect to the application of any moneys paid to the District or to any other Fiduciary. No Fiduciary shall be under any obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect hereof, or to advance any of its own moneys, unless properly indemnified. Subject to the

provisions of subsection 2 of this Section 9.03, no Fiduciary shall be liable in connection with the performance of its duties hereunder except for its own negligence, misconduct or default.

2. The Trustee, prior to the occurrence of an Event of Default and after the curing of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in the Resolution. In case an Event of Default has occurred (which has not been cured) the Trustee shall exercise such of the rights and powers vested in it by the Resolution, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs. Any provision of the Resolution relating to action taken or to be taken by the Trustee or to evidence upon which the Trustee may rely shall be subject to the provisions of this Section 9.03.

9.04 Evidence on Which Fiduciaries May Act. 1. Each Fiduciary, upon receipt of any notice, resolution, request, consent, order, certificate, report, opinion, bond, or other paper or document furnished to it pursuant to any provision of the Resolution, shall examine such instrument to determine whether it conforms to the requirements of the Resolution and shall be protected in acting upon any such instrument believed by it to be genuine and to have been signed or presented by the proper party or parties. Each Fiduciary may consult with counsel, who may or may not be of counsel to the District, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Resolution in good faith and in accordance therewith.

2. Whenever any Fiduciary shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Resolution, such matter (unless other evidence in respect thereof be therein specifically prescribed) may be deemed to be conclusively proved and established by a certificate of an Authorized Officer of the District, and such certificate shall be full warrant for any action taken or suffered in good faith under the provisions of the Resolution upon the faith thereof; but in its discretion the Fiduciary may in lieu thereof accept other evidence of such fact or matter or may require further or additional evidence as to it as may seem reasonable.

3. Except as otherwise expressly provided in the Resolution, any request, order, notice, or other direction required or permitted to be furnished pursuant to any provision thereof by the District to any Fiduciary shall be sufficiently executed if executed in the name of the District by an Authorized Officer of the District.

9.05 Compensation. The District shall pay to each Fiduciary from time to time reasonable compensation for services rendered under the Resolution, and also reasonable expenses, charges, counsel fees and other disbursements, including those of its attorneys, agents, and employees, incurred in and about the performance of their powers and duties under the Resolution in accordance with agreements made from time to time by and between the District and the Trustee. Subject to the provisions of Section 9.03, the District further agrees to indemnify and save each Fiduciary harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder, and which are not due to its negligence, misconduct or default.

9.06 Certain Permitted Acts. Any Fiduciary may become the owner of any Bonds ~~(and coupons)~~, with the same rights it would have if it were not a Fiduciary. To the extent permitted by law, any Fiduciary may act as depository for, and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bondholders or to effect or aid in any reorganization growing out of the enforcement of the Bonds or the Resolution, whether or not any such committee shall represent the Holders of a majority in principal amount of the Bonds then Outstanding.

9.07 Resignation of Trustee. The Trustee may at any time resign and be discharged of the duties and obligations created by the Resolution by giving not less than 60 days' written notice to the District, and publishing notice thereof, specifying the date when such resignation shall take effect, once in each week for two successive calendar weeks in the Authorized Newspapers, and such resignation shall take effect upon the day specified in such notice unless previously a successor shall have been appointed by the District or the Bondholders as provided in Section 9.09, in which event such resignation shall take effect immediately on the appointment of such successor.

9.08 Removal of Trustee. The Trustee shall be removed by the District if at any time so requested by an instrument or concurrent instruments in writing, filed with the Trustee and the District, and signed by the Holders of a majority in principal amount of the Bonds then Outstanding or their attorneys-in-fact duly authorized, excluding any Bonds held by or for the account of the District. The District may remove the Trustee at any time, except during the existence of an ~~{event}~~ [Event] of ~~{default}~~ [Default] as defined in Section 8.01 hereof, for such cause as shall be determined in the sole discretion of the District by filing with the Trustee an instrument signed by an Authorized Officer of the District.

9.09 Appointment of Successor Trustee. 1. In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, a successor may be appointed by the District, and if the District does not appoint a successor within 30 days then by the Holders of a ~~{Majority}~~ [majority] in principal amount of the Bonds then outstanding, excluding any Bonds held by or for the account of the District, by an instrument or concurrent instruments in writing signed and acknowledged by such Bondholders or by their attorneys-in-fact duly authorized and delivered to such successor Trustee, notification thereof being given to the District and the predecessor Trustee. The District shall publish notice of any such appointment made by it or the Bondholders once in each week for two successive calendar weeks, in the Authorized Newspapers, the first publication to be made within 20 days after such appointment.

2. If in a proper case no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Section within 60 days after the Trustee shall have given to the District written notice as provided in Section 9.07 or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, the Trustee or the Holder of any Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper, appoint a successor Trustee.

3. Any Trustee appointed under the provisions of this Section in succession to the Trustee shall be a bank or trust company or national banking association, and having capital stocks and surplus aggregating at least ~~[\$25,000,000]~~ [\$100,000,000], if there be such a bank or trust company or national banking association willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by this Resolution.

9.10 Transfer of Rights and Property to Successor Trustee. Any successor Trustee appointed under the Resolution shall execute, acknowledge and deliver to its predecessor Trustee, and also to the District, an instrument accepting such appointment, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become fully vested with all moneys, estates, properties, rights, powers, duties and obligations of such predecessor Trustee, with like effect as if originally named as Trustee, but the Trustee ceasing to act shall nevertheless, on the written request of the District, or of the successor Trustee, execute, acknowledge and deliver such instruments of conveyance and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Trustee all the right, title and interest of the predecessor Trustee in and to any property held by it under the Resolution; and shall pay over, assign and deliver to the successor Trustee any money or other property subject to the trust and conditions herein set forth. Should any deed, conveyance or instrument in writing from the District be required by such successor Trustee for more fully and certainly vesting in and confirming to such successor Trustee any such estates, rights, powers and duties, any and all such deeds, conveyances and instruments in writing shall, on request, and so far as may be authorized by law, be executed, acknowledged and delivered by the District. Any such successor Trustee shall promptly notify the Paying Agents of its appointment as Trustee.

9.11 Merger or Consolidation. Any company into which any Fiduciary may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which any Fiduciary may sell or transfer all or substantially all of its corporate trust business, provided such company shall be a bank or trust company organized under the laws of any state of the United States or a national banking association, and shall be authorized by law to perform

all the duties imposed upon it by the Resolution, shall be the successor to such Fiduciary without the execution or filing of any paper or the performance of any further act.

9.12 Resignation or Removal of Paying Agent and Appointment of Successor. 1. Any Paying Agent may at any time resign and be discharged of the duties and obligations created by the Resolution by giving at least 60 days' written notice to the District, the Trustee, and the other Paying Agents. Any Paying Agent may be removed at any time by an instrument filed with such Paying Agent and the Trustee and signed by the District. Any successor Paying Agent shall be appointed by the District and shall be a bank or trust company organized under the laws of any state of the United States or a national banking association and willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the Resolution.

2. In the event of the resignation or removal of any Paying Agent, such Paying Agent shall pay over, assign and deliver any moneys held by it as Paying Agent to its successor, or if there be no successor, to the Trustee. In the event that for any reason there shall be a vacancy in the office of any Paying Agent, the Trustee shall act as such Paying Agent.

ARTICLE X

SUPPLEMENTAL RESOLUTIONS

10.01 Supplemental Resolutions Effective Upon Filing With the Trustee. For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution of the District may be adopted, which, upon the filing with the Trustee of a copy thereof certified by an Authorized Officer of the District, shall be fully effective in accordance with its terms:

(1) To close the Resolution against, or provide limitations and restrictions in addition to the limitations and restrictions contained in the Resolution on, the delivery of Bonds or the issuance of other evidences of indebtedness;

(2) To add to the covenants and agreements of the District in the Resolution, other covenants and agreements to be observed by the District which are not contrary to or inconsistent with the Resolution as theretofore in effect;

(3) To add to the limitations and restrictions in the Resolution, other limitations and restrictions to be observed by the District which are not contrary to or inconsistent with the Resolution as theretofore in effect;

(4) To authorize Bonds of a Series and, in connection therewith, specify and determine the matters and things referred to in Section 2.02, and also any other matters and things relative to such Bonds which are not contrary to or inconsistent with the Resolution as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first delivery of such Bonds;

(5) To confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Resolution, of the Revenues or of any other moneys, securities or funds;

(6) To modify any of the provisions of the Resolution in any respect whatever, provided that (i) such modification shall be, and be expressed to be, effective only after all Bonds of any Series Outstanding at the date of the adoption of such Supplemental Resolution shall cease to be Outstanding, and (ii) such Supplemental Resolution shall be specifically referred to in the text of all Bonds of any Series delivered after the date of the adoption of such Supplemental Resolution and of Bonds issued in exchange therefor or in place thereof;

(7) [To modify any of the provisions of the Resolution to permit compliance with any amendment to the Internal Revenue Code of 1986, as amended, or any successor thereto, as the same may be in effect from time to time, if, in the Opinion of Bond Counsel, failure to so modify the Resolution either would adversely affect the ability of the District to issue Bonds the interest on which is excludable from

gross income for purposes of federal income taxation, or is necessary or advisable to preserve such exclusion with respect to any Outstanding Bonds;

(8) To comply with such regulations and procedures as are from time to time in effect relating to establishing and maintaining a book-entry-only system;

(9) To provide for the issuance of Bonds in coupon form payable to bearer;

(10) To comply with the requirements of any nationally recognized rating agency in order to maintain or improve a rating on the Bonds by such rating agency;

(11)] To cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Resolution; or

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[(12)] To insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable and are not contrary to or inconsistent with the Resolution as theretofore in effect.

10.02 Supplemental Resolutions Effective With Consent of Trustees. At any time or from time to time, a Supplemental Resolution may be adopted subject to consent by Bondholders in accordance with and subject to the provisions of Article XI, which Supplemental Resolution, upon the filing with the Trustee of a copy thereof certified by an Authorized Officer of the District and upon compliance with the provisions of said Article XI, shall become fully effective in accordance with its terms as provided in said Article XI.

10.03 General Provisions. 1. The Resolution shall not be modified or amended in any respect except as provided in and in accordance with and subject to the provisions of this Article X and Article XI. Nothing in this Article X or Article XI contained shall affect or limit the right or obligation of the District to adopt, make, do, execute, acknowledge or deliver any resolution, act or other instrument pursuant to the provisions of Section 7.04 or the right or obligation of the District to execute and deliver to any Fiduciary any instrument which elsewhere in the Resolution it is provided shall be delivered to said Fiduciary.

2. Any Supplemental Resolution referred to and permitted or authorized by Section ~~10.01~~ **[10.01]** may be adopted by the District without the consent of any of the Bondholders, but shall become effective only on the conditions, to the extent and at the time provided in said Sections, respectively. The copy of every Supplemental Resolution when filed with the Trustee shall be accompanied by a Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted in accordance with the provisions of the Resolution, is authorized or permitted by the Resolution, and is valid and binding upon the District and enforceable in accordance with its terms.

3. The Trustee is hereby authorized to accept the delivery of a certified copy of any Supplemental Resolution referred to and permitted or authorized by Sections 10.01 or 10.02 and to make all further agreements and stipulations which may be therein contained, and the Trustee, in taking such action, shall be fully protected in relying on an opinion of counsel (which may be a Counsel's Opinion) that such Supplemental Resolution is authorized or permitted by the provisions of the Resolution.

4. No Supplemental Resolution shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto.

ARTICLE XI

AMENDMENTS

11.01 Mailing and Publication. 1. Any provision in this Article for the mailing of a notice or other paper to Bondholders shall be fully complied with if it is mailed postage prepaid only (i) to each registered owner of Bonds then Outstanding at his address, if any, appearing upon the registry books of the District or the Trustee, **[and]** (ii) ~~to each Holder of any Bond payable to bearer who shall have filed with the Trustee within two years preceding such mailing an address for notices, and (iii)~~ to the Trustee.

2. Any provision in this Article for publication of a notice or other matter shall require the publication thereof only in the Authorized Newspapers.

11.02 Powers of Amendment. Any modification or amendment of the Resolution and of the rights and obligations of the District and of the Holders of the Bonds ~~{and coupons}~~ thereunder, in any particular, may be made by a Supplemental Resolution, with the written consent given as provided in Section 11.03(i) of the Holders of at least two-thirds in principal amount of the Bonds Outstanding at the time such consent is given, and (ii) in case less than all of the several Series of Bonds then Outstanding or less than all the Bonds of a Series then Outstanding are affected by the modification or amendment, of the Holders of at least two-thirds in principal amount of the Bonds so affected and Outstanding at the time such consent is given, and (iii) in case the modification or amendment changes the terms of any Sinking Fund Installment, of Holders of at least two-thirds in principal amount of the Bonds entitled to such Sinking Fund Installment and Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto. For the purpose of this Section, a Series shall be deemed to be affected by a modification or amendment of the Resolution if the same adversely affects or diminishes the rights of the Holders of Bonds of such Series.

11.03 Consent of Bondholders. The District may at any time adopt a Supplemental Resolution making a modification or amendment permitted by the provisions of Section 11.02, to take effect when and as provided in this Section. A copy of such Supplemental Resolution (or brief summary thereof or reference thereto in form approved by Trustee, together with a request to Bondholders for their consent thereto in form satisfactory to the Trustee), shall be mailed by the District to Bondholders and shall be published in the Authorized Newspapers at least once a week for two successive weeks (but failure to mail such copy and request shall not affect the validity of the Supplemental Resolution when consented to as in this Section provided). Such Supplemental Resolution shall not be effective unless and until (i) there shall have been filed with the Trustee (a) the written consents of Holders of the percentages of Outstanding Bonds specified in Section 11.02 and (b) a Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted and filed by the District in accordance with the provisions of the Resolution, is authorized or permitted by the Resolution, and is valid and binding upon the District and enforceable in accordance with its terms, and (ii) a notice shall have been published as hereinafter in this Section 11.03 provided. Each such consent shall be effective only if accompanied by proof of the holding, at the date of such consent, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by Section 12.02. A certificate or certificates by the Trustee filed with the Trustee that it has examined such proof and such proof is sufficient in accordance with Section 12.02 shall be conclusive that the consents have been given by the Holders of the Bonds described in such certificate or certificates of the Trustee. Any such consent shall be binding upon the Holder of the Bonds giving such consent and, anything in Section 12.02 to the contrary notwithstanding, upon any subsequent Holder of such Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof) unless such consent is revoked in writing by the Holder of such Bonds giving such consent or a subsequent Holder thereof by filing with the Trustee, prior to the time when the written statement of the Trustee hereinafter in this Section 11.03 provided for is filed, such revocation and, if such Bonds are transferable by delivery, proof that such Bonds are held by the signer of such revocation in the manner permitted by Section 12.02. The fact that a consent has not been revoked may likewise be proved by a certificate of the Trustee filed with the Trustee to the effect that no revocation thereof is on file with the Trustee. At any time after the Holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution, the Trustee shall make and file with the District and the Trustee a written statement that the Holders of such required percentages of Bonds have filed such consents. Such written

statement shall be conclusive that such consents have been so filed. At any time thereafter notice, stating in substance that the Supplemental Resolution (which may be referred to as Supplemental Resolution adopted by the District on a stated date, a copy of which is on file with the Trustee) has been consented to by the Holders of the required percentages of Bonds and will be effective as provided in this Section 11.03, may be given to Bondholders by the District by mailing such notice to Bondholders (but failure to mail such notice shall not prevent such Supplemental Resolution from becoming effective and binding as in this Section 11.03 provided) and by publishing the same in the Authorized Newspapers at least once not more than 90 days after the Holders of the required percentages of Bonds shall have filed their consents to the Supplemental Resolution and the written statement of the Trustee hereinabove provided for is filed. The District shall file with the Trustee proof of the publication of such notice and, if the same shall have been mailed to Bondholders, of the mailing thereof. A record, consisting of the papers required or permitted by this Section 11.03 to be filed with the Trustee, shall be proof of the matters therein stated. Such Supplemental Resolution making such amendment or modification shall be deemed conclusively binding upon the District, the Fiduciaries and the Holders of all Bonds ~~{and coupons}~~ at the expiration of 40 days after the filing with the Trustee of the proof of the first publication of such last mentioned notice, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Resolution in a legal action or equitable proceeding for such purpose commenced within such 40 day period; provided, however, that any Fiduciary and the District during such 40 day period and any such further period during which any such action or proceeding may be pending shall be entitled in their absolute discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Resolution as they may deem expedient.

11.04 Modifications by Unanimous Consent. The terms and provisions of the Resolution and the rights and obligations of the District and of the Holders of the Bonds ~~{and coupons}~~ thereunder may be modified or amended in any respect upon the adoption and filing by the District of a Supplemental Resolution and the consent of the Holders of all the Bonds then Outstanding, such consent to be given as provided in Section 11.03 except that no notice to Bondholders either by mailing or publication shall be required: provided, however, that no such modification or amendment shall change or modify any of the rights or obligations of any Fiduciary without the filing with the Trustee of the written assent thereto of such Fiduciary in addition to the consent of the Bondholders.

11.05 Exclusion of Bonds. Bonds owned or held by or for the account of the District shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in this Article XI, and the District shall not be entitled with respect to such Bonds to give any consent or take any other action provided for in this Article. At the time of any consent or other action taken under this Article, the District shall furnish the Trustee a certificate of an Authorized Officer of the District, upon which the Trustee may rely, describing all Bonds so to be excluded.

11.06 Notation on Bonds. Bonds delivered after the effective date of any action taken as in Article X or this Article XI provided may, and, if the Trustee so determines, shall bear a notation by endorsement or otherwise in form approved by the District and the Trustee as to such action, and in that case upon demand of the Holder of any Bond Outstanding at such effective date and presentation of his Bond for the purpose at the principal corporate trust office of the Trustee or upon any transfer or any Bond Outstanding at such effective date, suitable notation shall be made on such Bond or upon any Bond issued upon any such transfer by the Trustee as to any such action. If the District shall so determine, new Bonds so modified as in the opinion of the District to conform to such action shall be prepared and delivered, and upon demand of the Holder of any Bond then Outstanding shall be exchanged, without cost to such Bondholder, for Bonds of the same Series and maturity then Outstanding, upon surrender of such Bonds. ~~{with all unpaid coupons, if any, appertaining thereto}~~.

ARTICLE XII

MISCELLANEOUS

12.01 Defeasance. 1. If the District shall pay or cause to be paid or there shall otherwise be paid, to the Holders of any Bonds ~~{and coupons}~~ the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Resolution, then the pledge of any Revenues, and other moneys and securities pledged under the Resolution and all covenants, agreements and other obligations of the District to the Bondholders, shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall cause an accounting for such period or periods as shall be requested by the District to be prepared and filed with the District and, upon the request of the District, shall execute and deliver to the District all such instruments as may be desirable to evidence such discharge and satisfaction, and the Fiduciaries shall pay over or deliver to the District all moneys or securities held by them pursuant to the Resolution which are not required for the payment of principal or Redemption Price, if applicable, on Bonds or payment of ~~{coupons not theretofore surrendered for such payment or redemption}~~ **[interest]**. If the District shall pay or cause to be paid, or there shall otherwise be paid, to the Holders of all Outstanding Bonds of a particular Series ~~{and the coupons appertaining thereto}~~ the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Resolution, such Bonds shall cease to be entitled to any lien, benefit or security under the Resolution, and all covenants, agreements and obligations of the District to the Holders of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

2. Bonds or ~~{coupons}~~ **[the principal]** or interest installments **[or Redemption Price]** for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Paying Agents (through deposit by the District of funds for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in subsection 1 of this Section. Any Outstanding Bonds of any Series ~~{and all coupons appertaining to such Bonds}~~ shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in subsection 1 of this Section if (a) in case any of said Bonds are to be redeemed on any date prior to their maturity, the District shall have given to the Trustee in form satisfactory to it irrevocable instructions to publish as provided in Article IV notice of redemption of such Bonds on said date, (b) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or ~~{Investment}~~ **[Defeasance]** Securities the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient, to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (c) in the event said Bonds are not by their terms subject to redemption within the next succeeding 60 days, the District shall have given the Trustee in form satisfactory to it irrevocable instructions to publish, as soon as practicable, at least twice, at an interval of not less than seven days between publications, in the Authorized Newspapers a notice to the owners of such Bonds ~~{and coupons}~~ that the deposit required by (b) above has been made with the Trustee and that said Bonds ~~{and coupons}~~ are deemed to have been paid in accordance with this Section and stating such maturity or redemption date upon which moneys are available for the payment of the principal or Redemption Price, if applicable, on said Bonds. Neither ~~{Investment}~~ **[Defeasance]** Securities nor moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such ~~{Investment}~~ **[Defeasance]** Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if applicable, and interest on said Bonds; provided that any cash received from such principal or interest payments on such ~~{Investment}~~ **[Defeasance]** Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in ~~{Investment}~~ **[Defeasance]** Securities maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if applicable, and interest to become due on said Bonds on and prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to the District, as received by the Trustee, free and clear of any trust, lien or pledge. ~~{For the purposes of this Section, Investment Securities shall mean and include only non-callable securities which are direct obligations of, or obligations guaranteed by, the United States of America.}~~

3. Anything in the Resolution to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge of any of the Bonds ~~for coupons~~ which remain unclaimed for ~~six~~ [five] years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for ~~six~~ [five] years after the date of deposit of such moneys if deposited with the Fiduciary after the said date when such Bonds became due and payable, shall, at the written request of the District, be repaid by the Fiduciary to the District, as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged with respect thereto and the Bondholders shall look only to the District for the payment of such Bonds ~~and coupons~~; provided, however, that before being required to make any such payment to the District, the Fiduciary shall, at the expense of the District, cause to be published at least twice, at an interval of not less than seven days between publications, in the Authorized Newspapers, a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall be not less than 30 days after the date of the first publication of such notice, the balance of such moneys then unclaimed will be returned to the District.

12.02 Evidence of Signatures of Bondholders and Ownership of Bonds. 1. Any request, consent, revocation of consent or other instrument which the Resolution may require or permit to be signed and executed by the Bondholders may be in one or more instruments of similar tenor, and shall be signed or executed by such Bondholders in person or by their attorneys appointed in writing. Proof of (i) the execution of any such instrument, or of an instrument appointing any such attorney, or (ii) the holding by any person of the Bonds ~~for coupons appertaining thereto,~~ shall be sufficient for any purpose of the Resolution (except as otherwise therein expressly provided) if made in the following manner, or in any other manner satisfactory to the Trustee, which may nevertheless in its discretion require further or other proof in cases where it deems the same desirable:

(1) The fact and date of the execution by any Bondholder or his attorney of such instruments may be proved by a guarantee of the signature thereon by an eligible guarantor institution or by the certificate of any notary public or other officer authorized to take acknowledgments of deeds, that the person signing such request or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer. Where such execution is by an officer of a corporation or association or a member of a partnership, on behalf of such corporation, association or partnership, such signature guarantee, certificate or affidavit shall also constitute sufficient proof of his authority.

(2) The amount of Bonds transferable by delivery held by any person executing any instrument as a Bondholder, the date of his holding such Bonds, and the numbers and other identification thereof, may be proved by a certificate, which need not be acknowledged or verified, in form satisfactory to the Trustee, executed by the Trustee or by a member of a financial firm or by an officer of a bank, trust company, insurance company, or financial corporation or other depository wherever situated, showing at the date therein mentioned that such person exhibited to such member or officer or had on deposit with such depository the Bonds described in such certificate. Such certificate may be given by a member of a financial firm or by an officer of any bank, trust company, insurance company or financial corporation or depository with respect to Bonds owned by it, if acceptable to the Trustee. In addition to the foregoing provisions, the Trustee may from time to time make such reasonable regulations as it may deem advisable permitting other proof of holding of Bonds transferable by delivery.

2. The ownership of Bonds ~~registered otherwise than to bearer~~ and the amount, numbers and other identification, and date of holding the same shall be proved by the registry books.

3. Any request or consent by the owner of any Bond shall bind all future owners of such Bond in respect of anything done or suffered to be done by the District or any Fiduciary in accordance therewith.

12.03 Prior Obligations Not Affected. Nothing contained in the Resolution shall be construed as impairing or destroying the obligation of the District in connection with any franchise, contract, agreement, lease or other arrangement entered into by the District in connection with the operation of the properties of the District prior to the adoption of the Resolution, or to release any person, firm or corporations, public or private,

from any debt or other obligation to the District pursuant to any such franchise, contract, agreement, lease or other arrangement.

12.04 Change of Corporate Name. Nothing herein contained shall prevent the District from changing its corporate name from time to time as provided by law, and the District expressly reserves the right to effect such change as may be determined by its Board of Directors.

12.05 Moneys Held for Particular Bonds ~~and Coupons~~. The amounts held by any Fiduciary for the payment of the interest, principal or Redemption Price due on any date with respect to particular Bonds ~~for coupons~~ shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Holders of the Bonds ~~and coupons~~ entitled thereto.

12.06 Preservation and Inspection of Documents. All documents received by any Fiduciary under the provisions of the Resolution shall be retained in its possession and shall be subject at all reasonable times to the inspection of the District, any other Fiduciary, and any Bondholder and their agents and their representatives, any of whom may make copies thereof.

12.07 Parties Interested Herein. Nothing in the Resolution expressed or implied is intended or shall be construed to confer upon, or to give to, any person or corporation, other than the District, the Fiduciaries and the Holders of the Bonds ~~and the coupons thereunto appertaining~~, any right, remedy or claim under or by reason of the Resolution or any covenant, condition or stipulation thereof; and all the covenants, stipulations, promises and agreements in the Resolution contained by and on behalf of the District shall be for the sole and exclusive benefit of the District, the Fiduciaries, and the Holders of the Bonds ~~and the coupons thereunto appertaining~~.

12.08 No Recourse on the Bonds. No recourse shall be had for the payment of the principal or interest on the Bonds or for any claim based thereon or on the Resolution against any member or officer of the District or any person executing the Bonds.

12.09 Publication of Notice; Suspension of Publication. Any publication to be made under the provisions of the Resolution in successive weeks or on successive dates may be made in each instance upon any business day of the week and need not be made in the same Authorized Newspapers for any or all of the successive publications but may be made in different Authorized Newspapers.

2. If, because of the temporary or permanent suspension of the publication or general circulation of any of the Authorized Newspapers or for any other reason, it is impossible or impractical to publish any notice pursuant to the Resolution in the manner herein provided, then such publication in lieu thereof as shall be made with the approval of the Trustee shall constitute a sufficient publication of such notice.

12.10 ~~Priority of Prior Lien Bonds. So long as Prior Lien Bonds are outstanding, the rights herein granted to the Holders of the Bonds Outstanding hereunder shall be subject to the rights of the holders of the outstanding Prior Lien Bonds.~~ [Reserved.]

12.11 Severability of Invalid Provisions. If any one or more of the covenants or agreements provided in the Resolution on the part of the District or any Fiduciary to be performed should be contrary to law, then such covenant or covenants or agreement or agreements shall be deemed severable from the remaining covenants and agreements, and shall in no way affect the validity of the other provisions of the Resolution[, so long as the Resolution as so modified continues to express, without material change, the original intentions of the District or any Fiduciary as to the subject matter of the Resolution and the deletion of such portion of the Resolution will not substantially impair the respective benefits or expectations of the District or any Fiduciary.]

~~[12.12 Immediate Effect]~~ **[12.12 Effective Date].** This Resolution shall take effect ~~immediately~~ [in accordance with the provisions of Section 11.03 hereof; provided, however, that any modification or amendment affecting the form, ownership, transfer, registration, exchange, cancellation, redemption or payment of any coupon Bond shall not take effect with respect to such coupon Bond so long as any coupon Bonds remain Outstanding.]

APPENDIX E — Form of Bond Counsel Opinion

[Form of Bond Counsel Opinion]

September 26, 2002

Board of Directors
Salt River Project Agricultural
Improvement and Power District
Tempe, Arizona 85281

Ladies and Gentlemen:

We have examined the Constitution and statutes of the State of Arizona, certified copies of the proceedings of the Board of Directors of the Salt River Project Agricultural Improvement and Power District (the "District") and other proofs submitted to us relative to the issuance and sale by the District, a body politic and corporate and political subdivision of the State of Arizona, of

\$570,000,000
Salt River Project
Electric System Revenue Bonds,
2002 Series B

The 2002 Series B Bonds consist of bonds bearing interest at fixed rates. The 2002 Series B Bonds are dated as shown on the cover of the Official Statement (as defined herein), mature, bear interest and are subject to redemption at the times, in the manner and upon the terms provided therein and in the Resolutions (as hereinafter defined).

We have also examined the form of said 2002 Series B Bonds.

We are of the opinion that such proceedings and proofs show lawful authority for the issuance and sale of the 2002 Series B Bonds pursuant to the Constitution and statutes of the State of Arizona, including particularly Article 7, Chapter 17, Title 48, Arizona Revised Statutes, and other applicable provisions of law, and pursuant and subject to the provisions, terms and conditions of a resolution, dated as of November 1, 1972, entitled "Resolution Concerning Revenue Bonds" as amended, and a resolution dated as of September 13, 2002, entitled "Resolution Authorizing The Issuance And Sale Of \$570,000,000 Salt River Project Electric System Revenue Bonds, 2002 Series B" (collectively, the "Resolutions"), all duly adopted by the District and that the 2002 Series B Bonds are valid and legally binding special obligations of the District. The District has adopted a Supplemental Resolution Amending and Restating the Resolution Concerning Revenue Bonds (the "Amended and Restated Resolution"), which contains certain amendments to the Resolution Concerning Revenue Bonds. The Amended and Restated Resolution will become effective in accordance with the Resolution Concerning Revenue Bonds only upon the District obtaining the written consent of the holders of two-thirds in principal amount of the bonds then outstanding under the Resolution Concerning Revenue Bonds. Upon becoming effective, all of the provisions of the Amended and Restated Resolution will be binding and controlling with respect to all outstanding bonds under the Resolutions, including the 2002 Series B Bonds.

We are further of the opinion that the District, in the Resolutions, has lawfully covenanted and is legally obligated to charge and collect, and revise from time to time whenever necessary, such fees and other charges for the sale of electric power and energy which will be sufficient in each year to pay the necessary expenses of operating and maintaining the District's electric system, the principal of and interest on the 2002 Series B Bonds and all other indebtedness maturing and becoming due in such year, and all reserve or other payments required by the Resolutions in such year, subject to restrictions, if any, imposed by or on behalf of the United States of America, all in the manner provided in the Resolutions.

We are further of the opinion that the 2002 Series B Bonds and the outstanding Electric System Revenue Bonds heretofore issued pursuant to the Resolution Concerning Revenue Bonds as to principal or redemption price thereof and interest thereon are payable on a parity from and secured by a valid and equal pledge of the revenues of the District's electric system and other funds held or set aside under the Resolutions. Such pledge is subject and subordinate to the pledges and liens created by United States of America loan agreements hereafter entered into by the District, all in the manner provided in the Resolutions.

We are further of the opinion that the District may, within the terms, limitations and conditions contained in the Resolutions, issue *pari passu* additional Electric System Revenue Bonds payable from the revenues derived from the District's electric system, ranking equally as to lien on and source and security for payment from the revenues derived from the District's electric system, with the 2002 Series B Bonds and any *pari passu* additional Electric System Revenue Bonds heretofore or hereafter issued, all in the manner provided in the Resolutions.

We are further of the opinion that the District has validly entered into further covenants and agreements with the holders of the 2002 Series B Bonds for the exact terms of which reference is made to the Resolutions.

With respect to our federal income tax opinion, we note that the Code imposes certain requirements that must be met on a continuing basis subsequent to the issuance of the 2002 Series B Bonds in order for interest on the 2002 Series B Bonds to be excluded from gross income for federal income tax purposes under Section 103 of the Code. The District has covenanted to comply with the provisions of the Code applicable to the 2002 Series B Bonds and has covenanted not to take any action or permit any action to be taken which would cause the interest on the 2002 Series B Bonds to lose the exclusion from gross income for federal income tax purposes under Section 103 of the Code or cause interest on the 2002 Series B Bonds to be an item of tax preference under Section 57 of the Code. We have assumed continuing compliance by the District with the above covenants in rendering our opinion with respect to the exclusion of interest on the 2002 Series B Bonds from gross income for federal income tax purposes and with respect to interest on the 2002 Series B Bonds not constituting an item of tax preference.

In our opinion, under existing law, interest on the 2002 Series B Bonds is excluded from the gross income of the owners of the 2002 Series B Bonds for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and interest on the 2002 Series B Bonds is not an item of tax preference under Section 57 of the Code for purposes of computing alternative minimum tax. The difference between the initial public offering price of the 2002 Series B Bonds maturing January 1, 2016, January 1, 2024 and January 1, 2032 at which price a substantial amount of such 2002 Series B Bonds was sold and the principal amount payable at maturity of such 2002 Series B Bonds constitutes original issue discount. The appropriate portion of the original issue discount allocable to the original and each subsequent owner of the 2002 Series B Bonds maturing January 1, 2016, January 1, 2024 and January 1, 2032 will be treated for federal income tax purposes as interest not included in gross income under Section 103 of the Code to the same extent as stated interest on the 2002 Series B Bonds.

We are further of the opinion that interest on the 2002 Series B Bonds is exempt from income taxes imposed by the State of Arizona. In addition, the appropriate portion of the original issue discount allocable to the original and each subsequent owner of the 2002 Series B Bonds maturing January 1, 2016, January 1, 2024 and January 1, 2032 will be treated for Arizona income tax purposes as interest not included in gross income to the same extent as stated interest on the 2002 Series B Bonds.

Except as stated in the preceding three paragraphs, we express no opinion as to any federal or state tax consequences of the ownership of or disposition of the 2002 Series B Bonds. Furthermore, we express no opinion as to any federal, state or local tax consequences with respect to the 2002 Series B Bonds, or the interest thereon, if any action is taken with respect to the 2002 Series B Bonds or the proceeds thereof upon the advice or approval of counsel other than us.

The opinions set forth above are subject to the effect of, and restrictions and limitations imposed by or resulting from, bankruptcy, insolvency, debt adjustment, moratorium, reorganization or other similar laws affecting creditors' rights.

This opinion letter is dated as of the date hereof, and we assume no obligation to update this opinion letter to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law, or interpretations thereof, that may occur, or for any other reason.

Very truly yours,

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APPENDIX F — Form of Continuing Disclosure Agreement

CONTINUING DISCLOSURE AGREEMENT

Between

**SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT**

and

**THE BANK OF NEW YORK
as trustee**

\$570,000,000

Salt River Project Electric System Revenue Bonds, 2002 Series B

THIS CONTINUING DISCLOSURE AGREEMENT ("Agreement"), dated September 26, 2002, by and between the Salt River Project Agricultural Improvement and Power District (the "District"), an agricultural improvement district duly organized and existing under Article 7, Title 48, Chapter 17 of the laws of the State of Arizona, A.R.S. sections 48-2301, et seq. (the "Act") and The Bank of New York, New York, New York, as trustee (the "Trustee") for the \$570,000,000 Salt River Project Electric System Revenue Bonds, 2002 Series B to be issued by the District (the "Bonds");

WITNESSETH:

WHEREAS, the District intends to issue the Bonds under and pursuant to (i) the Act and (ii) the District's Resolution Concerning Revenue Bonds, dated as of November 1, 1972, as amended, including that supplemental resolution dated as of September 13, 2002 (the "Resolution").

WHEREAS, on November 10, 1994 the Securities and Exchange Commission (the "Commission") adopted Release Number 34-34961 (the "Release") which amended Rule 15c2-12 ("Rule 15c2-12"), originally adopted by the Commission on June 28, 1989;

WHEREAS, Rule 15c2-12 requires that prior to acting as a broker, dealer or municipal securities dealer (the "Participating Underwriter") for the Bonds, a Participating Underwriter must comply with the provisions of Rule 15c2-12;

WHEREAS, Rule 15c2-12 further provides, among other things, that a Participating Underwriter shall not purchase or sell the District's Bonds unless the Participating Underwriter has reasonably determined that the District and any "obligated person" (within the meaning of Rule 15c2-12, as amended) have undertaken, either individually or in combination with others, in a written agreement for the benefit of Bondholders, to provide certain information relating to the District, any "obligated person" and the Bonds, to the Repositories described hereinbelow;

WHEREAS, this Agreement is being executed and delivered by the District and the Trustee for the benefit of the Bondholders, the Beneficial Owners of the Bonds and the Trustee in order to comply with Rule 15c2-12 issued by the Commission;

WHEREAS, the District hereby agrees to provide the information described hereinbelow with respect to itself;

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, the District and the Trustee agree as follows:

Section 1. *Definitions*

"*Annual Financial Information*" shall mean the information specified in Section 3 hereof.

"*Beneficial Owner*" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any of the Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"*Bondholder*" or "*Holder*" shall mean any registered owner of Bonds and any Beneficial Owner of Bonds who provides evidence satisfactory to the Trustee of such status.

"*Independent Accountant*" shall mean, with respect to the District, any firm of certified public accountants appointed by the District.

"*Official Statement*" shall mean the Official Statement of the District, dated September 13, 2002, relating to the issuance of the Bonds.

"Repository" shall mean, at any time, each then existing nationally recognized municipal securities information repository, as recognized from time to time by the Commission for the purposes referred to in Rule 15c2-12. Repositories currently are identified on the Commission website at: <http://www.sec.gov/info/municipal/nrmsir.htm>.

"Rule 15c2-12" shall mean Rule 15c2-12 under the Securities Exchange Act of 1934, as amended through the date of this Agreement.

"State" shall mean the State of Arizona.

"State Repository" shall mean any public or private repository or entity designated by the State as a state information depository for the purpose of Rule 15c2-12 and recognized as such by the Commission. As of the date of this Agreement, there is no State Repository.

Capitalized terms not otherwise defined herein shall have the meaning ascribed thereto in the Resolution.

Section 2. *Obligation to Provide Continuing Disclosure*

The District hereby undertakes for the benefit of the Holders of the Bonds to provide:

A. to each Repository and to the State Repository, if any, no later than 180 days after the end of each fiscal year, commencing with the fiscal year ending April 30, 2003:

1. the Annual Financial Information relating to such fiscal year together with audited financial statements of the District for such fiscal year if audited financial statements are then available; provided, however, that if audited financial statements of the District are not then available, the unaudited financial statements of the District shall be submitted with the Annual Financial Information and the audited financial statements shall be delivered to each Repository and to the State Repository, if any, when they become available (but in no event later than 350 days after the end of such fiscal year); or

2. notice to each Repository or to the Municipal Securities Rulemaking Board, and to the State Repository, if any, of the District's failure, if any, to provide any of the information described in Section A.1. hereinabove;

B. to each Repository or to the Municipal Securities Rulemaking Board, and to the State Repository, if any, in a timely manner, notice of any of the following events with respect to the Bonds, if material:

1. any Event of Default resulting from principal and interest payment delinquencies on the Bonds;
2. any non-payment related Event of Default;
3. unscheduled draws on the Debt Reserve Account under the Resolution reflecting financial difficulties;
4. unscheduled draws on credit enhancements, if any, reflecting financial difficulties under the Resolution;
5. substitution of credit or liquidity providers, if any, or their failure to perform;
6. adverse tax opinions or events affecting the tax-exempt status of the Bonds;
7. amendment of or modifications to the rights of Bondholders;
8. giving of notice of redemption of Bonds (which does not include regularly scheduled or mandatory sinking fund redemptions effectuated in accordance with the Resolution);
9. defeasance of the Bonds;
10. release, substitution, or sale of property, if any, securing repayment of the Bonds; and
11. rating changes on the Bonds.

The Trustee shall notify the District upon the occurrence of any of the eleven events listed in this Section 2.B. promptly upon becoming aware of the occurrence of any such event. The Trustee shall not be

deemed to have become aware of the occurrence of any such event unless an officer in its corporate trust department actually becomes aware of the occurrence of any such event.

Nothing in this Agreement shall prevent the District from disseminating any information in addition to that required hereunder. If the District disseminates any such additional information, nothing herein shall obligate the District to update such information or include it in any future materials disseminated.

Section 3. *Annual Financial Information*

Annual Financial Information shall include updated financial and operating information, in each case updated through the last day of the District's prior fiscal year unless otherwise noted, relating to the following information contained in the Official Statement:

(i) information as to any changes in the District's projected peak loads and resources in substantially the same level of detail as found in Table 2 under the heading "Projected Peak Loads and Resources";

(ii) an update of the information listing District power sources and participation interests in power generating facilities in substantially the same level of detail found in Table 3 and Table 4 under the heading "Existing and Future Resources";

(iii) information as to any changes or proposed changes in the electric prices charged by the District in substantially the same level of detail as found under the heading "Electric Prices";

(iv) an update of the information relating to customer base and classification, electric power sales, and the District's revenues and expenses in substantially the same level of detail found in Table 7 and Table 8 under the heading "Customers, Sales, Revenues and Expenses";

(v) (a) an update summarizing the contractual payment obligations of the District on behalf of other political subdivisions which obligations secure debt service on bonds other than bonds issued by the District in substantially the same level of detail as found under the heading "Customers, Sales, Revenues and Expenses — Contractual Obligations Relating to Bonds of Other Political Subdivisions" and (b) a statement of any default in the payment of such obligations;

(vi) (a) information as to the authorization or issuance by the District of any notes, other obligations, minibonds or parity indebtedness in substantially the same level of detail as found under the heading "Additional Financial Matters" and (b) a statement of any default under such notes, minibonds or parity indebtedness;

(vii) (a) information as to the outstanding balances and required debt service on any United States Government Loans and (b) a statement of any default with respect to such loans;

(viii) (a) an update summarizing the District's discussions of operations in substantially the same level of detail as found under the heading "Additional Financial Matters — Management's Discussion of Operations" or an annual report;

(ix) (a) an update of the balance in the Debt Reserve Account and (b) an update of all information relating to actual debt service requirements and coverages for outstanding revenue bonds and other prior and parity debt obligations in substantially the same level of detail as found in Table 10 and Table 11 under the heading "Additional Financial Matters — Outstanding Revenue Bond Indebtedness"; and

(x) such narrative explanation as may be necessary to avoid misunderstanding and to assist the reader in understanding the presentation of financial information and operating data concerning, and in judging the financial condition of, the District.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements pertaining to debt issued by the District, which have been submitted to each of the Repositories and the State Repository, if any, or the Commission. If the document incorporated by reference is a final Official Statement (within the meaning of Rule 15c2-12), it must also be available from the

Municipal Securities Rulemaking Board. The District shall clearly identify each such other document so incorporated by reference. It is sufficient for the purposes of Rule 15c2-12 and this Agreement that the Annual Financial Information to be provided pursuant to Section 2.A. and Section 3 hereof be submitted to each of the Repositories, the State Repository, if any, or the Commission no more than once annually.

The requirements contained in this Section 3 are intended to set forth a general description of the type of financial information and operating data to be provided; such descriptions are not intended to state more than general categories of financial information and operating data; and where the provisions of this Section 3 call for information that no longer can be generated or is no longer relevant because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided.

Section 4. *Financial Statements*

The District's annual financial statements for each fiscal year shall be prepared in accordance with generally accepted accounting principles in effect from time to time. Such financial statements shall be audited by an Independent Accountant. All or any portion of the District's audited or unaudited financial statements may be incorporated by specific reference to any other documents which have been filed with (i) the Repositories and the State Repository, if any, or (ii) the Commission; provided, however, that if the document is an official statement, it shall have been filed with the Municipal Securities Rulemaking Board and need not have been filed elsewhere.

Section 5. *Remedies*

If the District shall fail to comply with any provision of this Agreement, then the Trustee or any Holder may, but shall not be obligated to, enforce, for the equal benefit and protection of all Holders similarly situated, by mandamus or other suit or proceeding at law or in equity, this Agreement against the District and any of the officers, agents and employees of the District, and may compel the District or any such officers, agents or employees to perform and carry out their duties under this Agreement; provided, however, that the sole remedy hereunder shall be limited to an action to compel specific performance of the obligations of the District hereunder and no person or entity shall be entitled to recover monetary damages hereunder under any circumstances; provided, further, that any challenge to the adequacy of any information provided pursuant to Section 2 shall be brought only by the Trustee or the Holders of 25% of the aggregate principal amount of the Bonds then outstanding which are affected thereby. Failure to comply with any provision of this Agreement shall not constitute an Event of Default under the Resolution.

Section 6. *Parties in Interest*

This Agreement is executed and delivered for the sole benefit of the Holders, the Beneficial Owners and the Trustee. No other person shall have any right to enforce the provisions hereof or any other rights hereunder.

Section 7. *Termination*

This Agreement shall remain in full force and effect until such time as all principal, redemption premiums, if any, and interest on the Bonds shall have been paid in full or legally defeased pursuant to the Resolution (a "Legal Defeasance"); *provided, however*, that if Rule 15c2-12 (or successor provision) shall be amended, modified or changed so that all or any part of the information currently required to be provided thereunder shall no longer be required to be provided thereunder, then this Agreement shall be amended to provide that such information shall no longer be required to be provided hereunder; and provided, further, that if and to the extent Rule 15c2-12 (or successor provision), or any provision thereof, shall be declared by a court of competent and final jurisdiction to be, in whole or in part, invalid, unconstitutional, null and void or otherwise inapplicable to the Bonds, then the information required to be provided hereunder, insofar as it was required to be provided by a provision of Rule 15c2-12 so declared, shall no longer be required to be provided hereunder. Upon any Legal Defeasance, the District shall provide notice of such defeasance to each Repository, the State Repository and the Municipal Securities Rulemaking Board. Such notice shall state whether the Bonds have been defeased to maturity or to redemption and the timing of such maturity or redemption. Upon any other termination pursuant to this Section 7, the District shall provide notice of such

termination to each Repository or to the Municipal Securities Rulemaking Board, and to the State Repository, if any.

Section 8. *Amendment; Change; Modification*

Without the consent of any Holders (except to the extent expressly provided below), the District and the Trustee at any time and from time to time may enter into any amendments or changes to this Agreement for any of the following purposes:

(i) to comply with or conform to Rule 15c2-12 or any amendments thereto or authoritative interpretations thereof by the Commission or its staff (whether required or optional) which are applicable to this Agreement;

(ii) to add a dissemination agent for the information required to be provided hereby and to make any necessary or desirable provisions with respect thereto;

(iii) to evidence the succession of another person to the District and the assumption by any such successor of the covenants of the District hereunder;

(iv) to add to the covenants of the District for the benefit of the Holders, or to surrender any right or power herein conferred upon the District; or

(v) for any other purpose as a result of a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the District, or type of business conducted; provided that (1) this Agreement, as amended, would have complied with the requirements of Rule 15c2-12 at the time of the offering of the Bonds, after taking into account any amendments or authoritative interpretations of Rule 15c2-12, as well as any change in circumstances, (2) the amendment or change either (a) does not materially impair the interest of Holders, as determined by bond counsel, or the interest of the Trustee, or (b) is approved by the vote or consent of Holders of a majority in outstanding principal amount of the Bonds affected thereby at or prior to the time of such amendment or change and (3) the Trustee receives an opinion of bond counsel that such amendment is authorized or permitted by this Agreement.

The Annual Financial Information for any fiscal year containing any amendment to the operating data or financial information for such fiscal year shall explain, in narrative form, the reasons for such amendment and the impact of the change on the type of operating data or financial information in the Annual Financial Information being provided for such fiscal year. If a change in accounting principles is included in any such amendment, such Annual Financial Information, respectively, shall present a comparison between the financial statements or information prepared on the basis of the amended accounting principles. Such comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information. To the extent reasonably feasible such comparison shall also be quantitative. A notice of any such change in accounting principles shall be sent to each Repository or to the Municipal Securities Rulemaking Board, and to the State Repository, if any.

Section 9. *Duties of the Trustee*

A. The duties of the Trustee under this Agreement shall be limited to those expressly assigned to it hereunder. The District agrees to indemnify and save harmless the Trustee and its officers, directors, employees and agents, for, from and against any loss, expense and liabilities that it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including reasonable attorneys' fees and expenses) of defending against any claim of liability, but excluding liabilities due to the Trustee's gross negligence or willful misconduct. The obligations of the District under this Section 9 shall survive resignation or removal of the Trustee, payment of the Bonds or termination of this Agreement.

B. No earlier than one day, nor later than 30 days, following the end of each fiscal year of the District (ending April 30, unless the District notifies the Trustee otherwise) the Trustee will notify the District of its obligation to provide the Annual Financial Information in the time and manner described herein; provided,

however, that any failure by the Trustee to notify the District under this Section 9.B shall not affect the District's obligation hereunder, and the Trustee shall not be responsible in any way for such failure.

C. The Trustee shall be under no obligation to report any information to any Repository, any State Repository, if any, the Municipal Securities Rulemaking Board or any Holder. If an officer of the Trustee obtains actual knowledge of an occurrence of an event described in Section 2.B.1. through 2.B.11 hereunder, whether or not such event is material, the Trustee will notify the District of such occurrence; provided, however, that any failure by the Trustee to notify the District under this Section 9.C. shall not affect the District's obligation hereunder, and the Trustee shall not be responsible in any way for such failure.

Section 10. *Governing Law*

THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE DETERMINED WITHOUT REGARD TO PRINCIPLES OF CONFLICT OF LAW, AND THE LAWS OF THE UNITED STATES OF AMERICA, AS APPLICABLE. Any action for enforcement of this Agreement shall be taken in a state or federal court, as appropriate, located in Maricopa County, Arizona. To the fullest extent permitted by law, the District and the Trustee each hereby irrevocably waives any and all rights to a trial by jury, and covenants and agrees that it will not request a trial by jury, with respect to any legal proceeding arising out of or relating to this Agreement.

Section 11. *No Previous Non-Compliance*

The District represents that it has previously entered into written contracts or agreements of the type referenced in paragraph (b)(5)(i) of Rule 15c2-12 in relation to certain of its outstanding obligations, and is in compliance with such agreements.

Section 12. *Counterparts*

This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized officers as of the date first above written.

SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT

By: _____

Name:

Title:

THE BANK OF NEW YORK
as Trustee

By: _____

Name:

Title:

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APPENDIX G — Book-Entry Only System

General

Beneficial ownership interests in the 2002 Series B Bonds will be available in book-entry form only. Purchasers of beneficial ownership interests in the 2002 Series B Bonds will not receive certificates representing their interests in the 2002 Series B Bonds and will not be Bondholders or owners of the Bonds under the Resolution.

DTC, an automated clearinghouse for securities transactions, will act as the Securities Depository for the 2002 Series B Bonds. The 2002 Series B Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each maturity of the 2002 Series B Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations ("Direct Participants"). DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, L.L.C., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others, such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of the 2002 Series B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2002 Series B Bonds on DTC's records. The ownership interest of each actual purchaser of each 2002 Series B Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmation providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2002 Series B Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2002 Series A Bonds, except in the event that use of the book-entry system for the 2002 Series B Bonds is discontinued.

To facilitate subsequent transfers, all 2002 Series B Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of 2002 Series B Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2002 Series A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2002 Series B Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners, will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2002 Series B Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2002 Series B Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2002 Series B Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Trustee, on each payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the District or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2002 Series B Bonds at any time by giving reasonable notice to the District. Under such circumstances, in the event that a successor securities depository is not obtained, the 2002 Series B Bond certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the 2002 Series B Bond certificates will be printed and delivered.

The information set forth above concerning DTC and DTC's book-entry system has been obtained from DTC and other sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

Issuance of the 2002 Series B Bonds in book-entry form may reduce the liquidity of such bonds in the secondary trading market since investors may be unwilling to purchase bonds for which they cannot obtain physical certificates. In addition, since transactions in the 2002 Series B Bonds can be effected only through DTC, Direct Participants and Indirect Participants, the ability of a Beneficial Owner to pledge 2002 Series B Bonds to persons or entities that do not participate in the DTC system, or otherwise to take actions in respect of the 2002 Series B Bonds, may be limited due to lack of a physical certificate. Beneficial Owners will not be recognized by the Trustee as registered owners for purposes of the Resolution, and Beneficial Owners will be permitted to exercise the rights of registered owners only indirectly through DTC and the Direct and Indirect Participants.

Same-Day Settlement and Payment

Settlement for the 2002 Series B Bonds will be made by the Underwriters in immediately available funds. All payment of principal and interest will be made by the Trustee on behalf of the District to DTC in immediately available funds.

Secondary trading in long-term principal obligations comparable to the 2002 Series B Bonds is generally settled in clearing-house or next-day funds. In contrast, the 2002 Series B Bonds will trade in DTC's Same-Day Fund Settlement System so long as DTC is the Securities Depository. Secondary market trading activity in the 2002 Series B Bonds will settle in immediately available funds. No assurance can be given as to the effect, if any, of settlement in immediately available funds on the trading activity in the 2002 Series B Bonds.